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Market Promotion Program, 103-1 Hea...

MARKET PROMOTION PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 25, 1993

Printed for the use of the Committee on Foreign Affairs

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MARKET PROMOTION PROGRAM

THURSDAY, MARCH 25, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT,
Washington, DC.

The committee met, pursuant to notice at 10:15 a.m., in room 2172, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Mr. GEJDENSON. The subcommittee meets today to review the operation of the Market Promotion Program, also known as MPP. This program, created by Congress in 1985 and revised in 1990, was designed to assist exports of the U.S. high-value agricultural commodities in finding and maintaining new markets overseas.

The MPP has been the subject of considerable controversy in recent years. Critics charge that large multinational corporations such as McDonald's and Gallo Wine have received U.S. Government funds to promote and advertise their products overseas, even though they have multimillion dollar advertising budgets of their own. Foreign firms and firms that use minimal amounts of U.S.-sourced commodities are also said to benefit from U.S. Government benefits.

Many also charge that MPP is poorly managed, poorly run, a program that has too often fallen prey to favoritism. Legislative attempts have been made to scale back funding for MPP or even to eliminate it altogether.

Our challenge, as the House subcommittee with jurisdiction over U.S. export promotion programs, is to decide whether MPP is a program worth saving, and if it is, what reforms are needed to be undertaken to make the program worth spending U.S. taxpayer dollars on.

My own sense is that there is merit in having a program of this sort that promotes export of high-valued agricultural products. These commodities are an important and growing sector of the American economy. As in other areas, value added is probably the place where the United States can be most competitive. Whether MPP, in its current form, is the best program suited to assist high-value exporters or not remains to be seen.

In determining the merits of this program, the Members of the subcommittee should also keep in mind what role MPP plays in the overall U.S. export promotion picture. Although the current budget process has individual export promotion programs competing against other programs within the same agency and not against

one another, I think that the overall balance between different export programs should be reviewed.

This hearing is part of that process. Of course, one of the principal mandates for the Trade Policy Coordinating Committee is to do just that. Develop a comprehensive export promotion program that balances the needs of manufacturing sectors with those of the service sectors and agriculture.

The United States, to be an effective world competitor, needs to be able to compete in all sectors, industrial, agricultural and manufacturing obviously to make sure that we can compete with not just the raw product of agriculture, but the processed products of agriculture. And we really need to figure out whether taxpayer dollars are being used in the best possible way in this program.

Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman. Let me join in welcoming our witnesses today. The subject of today's hearing, the Market Promotion Program, provides a good illustration of the dilemmas that we in Congress face in trade promotion.

As a result of this program, we have had some successes. Exports of high-value agricultural goods have gone up. But we also have reports that some of these promotions do not work very well.

How do we make sure that the Market Promotion Program funds do not keep flowing into ineffective promotion activities? Moreover, we must remember that nearly three-fourths of all export promotion funds go for agricultural goods, which amounts to only about 10 percent of all U.S. exports. Is this a good distribution of funds? I think this is a question that we have to ask ourselves.

And finally, we have to face the fact that in picking products and companies to participate in the Market Promotion Program, other products and companies are left out.

So in a real sense, the government is picking winners and losers in the marketplace. Is this an appropriate governmental role? That is another question that we have to ask ourselves.

To help us deal with these questions, we have some excellent witnesses here today. So I am looking forward to your testimony to help us resolve the dilemma that we face in this area.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Thank you very much, Mr. Chairman.

I would like to take a few words to speak about the Market Promotion Program. Certainly refinement and reform of this program and any other program is always appropriate. But I think we ought to be very careful we do not devastate something that works rather well.

The MPP does develop markets, new markets and it increases agricultural exports. For every $1 spent on MPP, the sales of agricultural products increase from $2 to $7. In fact, the final regulatory impact analysis of the MPP program indicates the total increase in U.S. agricultural exports attributed to program funding from the 1986 to 1988 period, ranged from $2 to $7 for each dollar of program funding.

The MPP and the agricultural exports do boost the overall economy by generating employment and income in both the farm and nonfarm sectors. Economic Research Service analysis indicates that for every $1 received from agricultural exports stimulation, it does,

in fact, stimulate $1.59 in supporting activities in the input processing transportation and marketing industries. Thus the additional exports generated by the MPP stimulate another $636 million to $233 billion in economic activity throughout the country.

And the MPP creates jobs in great quantity. The ERS analysis indicates that every $1 billion in agriculture exports maintains 27,000 jobs. Thus the $200 million spent annually under the MPP and the resulting increased exports created 11,000 to 38,000 jobs.

The U.S. value-added or processed agriculture exports are growing at record levels expanding by 75 percent over 7 years and amounting to just over $20 billion—$20 billion in 1991.

Under the MPP, about 80 percent of the funds expended are for the increasing marketing of high-value or value-added products.

Let me go to one of our major competitors for a comparison. The European community uses enormous subsidies to try to maintain and increase its share of world trade and high-value products. In 1990, ECC spent about $800 million subsidizing the production of fruits, vegetables and wine. All are grown without subsidies in the United States. And another $660 million in export subsidies were processed products; wines, fruits and vegetables. The $200 million spent annually under the MPP provides the support for U.S. products and firms to establish and maintain a foothold in a segment of the world trade dominating by subsidized competition.

Now, there are some critics of the current MPP that propose a unified budget for export promotion activities. They think it could better prioritize our export promotional programs through such a unified budget.

I want to tell you I think that would be a mistake. It is an effort I think to penalize a program where it has been aggressively supported by Congress and others.

And in conclusion, Mr. Chairman, let me give you and the Members of the committee and anyone listening three summary arguments in support of MPP. They are the following. The first I'll begin with a rhetorical question.

Why should agriculture be penalized for having the foresight to aggressively promote its products overseas by using USDA budget funds for export promotion? Export promotion supporters should applaud the USDA's foresight and copy it, not try to destroy it or to downgrade it.

Number two. All countries great agriculture differently and perhaps more generously when it comes to export promotion, especially internal subsidies. Therefore, in order to combat these artificial markets, U.S. export promotion subsidies are especially necessary.

And three, with all the potential for increased value-added exports to the world's fastest growing area, Southeast Asia, it is extremely disastrous to cut funds for market promotion now. The Asian countries, for example, identify with specific U.S. products, so branded promotion is not a bad idea. Yes, look at reform, look at refinement, but do not kill a program that is working well and do not downgrade it.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman.

I appreciate you holding these hearings on this subject, which has been near and dear to my heart for the last 4 or 5 years, even when it was called TEA Program. I think they changed the name in an effort to give it a new lease on life, but hopefully just the name change will not do the job.

I respect the comments of my colleague, Mr. Bereuter, who has fought hard and earnestly for this program.

My view is very simple. The bang for the buck you get from MPP is minimal if it exists at all. GAO study after GAO study has shown that lots of the money is wasted and not needed. And secondly, even in that marginal area where it may do a little bit of good, the basic question is one of priorities. Will spending a dollar here, what does it bring us? Usually nothing. Sometimes maybe a marginal, marginal, marginal effort by someone to buy an American good, which they might have bought anyway.

And so I think—I have been arguing that the program should go. Its origins, as I am told on the Agricultural Committee, were that every other program was getting subsidies, so what about all these groups that did not have a subsidy, and they sort of came up with the subsidy after the political need. It was sort of a subsidy in search of a rationale. And I think it still is. I think it ought to die.

Mr. Chairman, I yield back.

Mr. GEJDENSON. Any other opening statements?

[No response.]

Mr. GEJDENSON. Thank you. We will start with our first witness, Mr. Schroeter.

STATEMENT OF RICHARD B. SCHROETER, ACTING ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY PHILIP MACKIE, ASSISTANT ADMINISTRATOR FOR COMMODITY AND MARKETING PROGRAMS

Mr. SCHROETER. Thank you, Mr. Chairman, Members of the subcommittee. It is a pleasure I think to be here this morning.

I would like to say that I am accompanied this morning by Phil Mackie, who is our Assistant Administrator for Commodity and Marketing Programs. Phil is involved in the day-to-day operational oversight of this program. I think is expertise and experience will be useful to us as we talk about this program.

The goal of the MPP, as outlined in legislation, is to increase agricultural exports as much and as effectively as possible. To meet this goal, FAS has designed and implemented a program which we believe offers the U.S. Government a unique opportunity to leverage its government assistance to spur the private sector, to expand and develop overseas markets for U.S agricultural commodities and products.

As has been pointed out, the MPP supports both generic and branded promotional programs. We believe it has proved itself extremely valuable in helping the United States to expand its share of the fastest growing segment of the world's agricultural trade; namely, high-value products, for which I might point out, the EC, with its slavish and pervasive export subsidy program, is our major competitor.

And by contributing to an expansion of U.S. exports, it has, in its own way, also helped to lessen the nation's trade deficit. Agriculture is, in fact, the one sector of the economy that consistently generates a substantial surplus to the U.S. trade account.

And I think it is worth noting here is that as we talk about agricultural accounting for 10 percent of U.S. exports, we should also note that the agricultural trade surplus is around $18 billion.

From our perspective in FAS, the program works and we believe has worked well in encouraging agricultural firms to invest in the export market and increasing agricultural exports and thereby enhancing farm income.

Our own internal studies, and I must stress "internal studies" here, suggest a return of approximately $2 to $7 for every dollar expended on this program. In coming years, and——

Mr. GEJDENSON. Can I interrupt you there for a second?

Mr. SCHROETER. Sure.

Mr. GEJDENSON. When you say the return is $2 to $7 for every dollar invested in the program, how do you calculate that you are getting additional sales based on the additional advertising dollars that the taxpayers are providing?

Mr. SCHROETER. Well, here I am going to ask for Mr. Mackie's help, because he was involved in putting this rather elaborate study together. I think it is maybe worth spending some time on it. But as I said——

Mr. GEJDENSON. If you could do that now, that would be great.

Mr. SCHROETER. Sure.

Go ahead, Phil.

Mr. MACKIE. Mr. Chairman, that is the number which comes from the Economic Impact Analysis which Mr. Bereuter referred to in his opening statement. It was done by us in conjunction and using cofactors, coefficients, related to the increase in exports related to specific promotional activities done overseas and the relation to increased exports to jobs back here. So it's an increase in——

Mr. GEJDENSON. Just so I do not miss this, and I will count this against my time so I do not take up other Members' time later, but what you are saying is that you looked at the increase in a given year in sales and attributed that increase to the additional advertising that came from the Federal Government, and then added to that the salaries of the men and women in this country as well?

Mr. MACKIE. Yes. I think that is correct. I have not looked at that analysis in quite some time.

Mr. GEJDENSON. I would like to get your—because I always wonder about these things and, you know, we all have them in our own areas, that for every $1 we spend on the WIC program, we save $3. It is one I believe. I am not sure how anybody ever calculated it, but I use it all the time, and I plan to continue using it, because it is a program that I believe in.

But when you look at this program—for instance, what do we give McDonald's in this program?

Mr. MACKIE. Well, we did not give anything directly to McDonald's. McDonald's participated in the program through the Poultry and Egg Export Council. And the total amount of cost share that we did with McDonald's I think is something on the order of half a million dollars to $1 million.

Mr. GEJDENSON. So McDonald's ended up with a half a million dollars in taxpayers' money, advertised poultry and egg sales overseas——

Mr. MACKIE. Primarily.

Mr. GEJDENSON. And then their sales increased overseas in the markets that they advertised in, and you attributed all the increase in that market to the half a million dollars Federal dollars, is that correct?

Mr. MACKIE. Well, that is not how the $2 to $7 came out, but that is the general idea underlying the development of those numbers.

Mr. SCHROETER. Mr. Chairman, if I could just add two things here. I tried to emphasize that, number one, this was an internal FAS study. Economists I think have struggled for some years trying to figure out how to capture the effect of Market Promotion Programs, and I have not yet really seen a very solid study that gives a very strong economic analysis on this issue.

But in any event, in coming years, and assuming a successful Uruguay round, there is likely to be more interest by our competitors in indirect forums of assistance to increase agricultural exports, particularly high-value products.

And I would point out in this regard, that promotional assistance, at least in international trade terms, is not considered an export subsidy, and frankly I think that we can probably expect this form of assistance to increase.

We think we are a step ahead right now of our competitors, who have tended to rely more on export subsidies, and we would like to stay there.

So I think as we go about our examination of the MPP, we should try to keep these facts in mind.

We know what we are up against in agricultural trade. Pervasive and massive government interference in the entire marketing system; inadequate GATT rules, that I might add, differ from those in the industrial sector; and a myriad of import barriers, particularly in the high-value sector as countries protect their processing sectors.

The private sector frankly simply cannot take on these problems alone. And that is where the government weighs in. And perhaps what better way to provide help than with a program that allows us to, shall we say, lock arms with the private sector and take on the competitive battle with a program that is creative and demand oriented, and we think that works.

Because there are always more applications for MPP assistance than there are funds available, we have tried to use a very rigorous application review and evaluation process designed to allocate funds where they will generate the most, as you put it, bang for the buck.

However, in doing this, we recognize that markets vary greatly and market development assistance is not a one-shot deal that can be boxed and wrapped for the same use in all countries. Our participants in the program need the flexibility to plan and carryout different market development strategies as appropriate. Promoting in Tokyo is quite different, for example, than trying to promote a product in London.

Consequently, in this regard, we would question the advisability of setting arbitrary time limits on program participation. What matters far more we think is an evaluation of trade performance and changed behavior in the marketplace.

And in this regard, FAS is firmly committed to further enhancing the evaluation process and improving the application of evaluation results as well as, of course, improving the overall operation of a program.

I would also like to stress one major accomplishment of the program which is frequently overlooked. And that is what it has done in motivating U.S. interests in the export market and in trade issues.

For most agricultural commodities and most products, we have I think finally arrived at the point where the export market is no longer looked upon as a place to divert temporary excess supplies, but as a real market for development. Hamburg, Tokyo, Milan and Athens and other international commercial centers, are becoming as familiar to growers and processors as New York, Chicago and San Francisco.

We think the MPP has played a very crucial role in this process by assisting firms, many of which might otherwise not have participated in exporting to meet the highly specialized demands of consumers in many different lands overseas.

However, U.S. farmers and exports still face a very tough sell in the international marketplace in a world of increasing competitiveness and unfortunately still rampant protectionism. The MPP has proven itself one of the more versatile tools available to U.S. agriculture in building new markets, which are going to be increasingly important to the health and prosperity of American agriculture as farm programs evolve.

In particular, MPP has helped U.S. farmers and exporters position themselves to take advantage of the market opportunities in the most vibrant sector of world trade, and that's high-value products.

Thank you, Mr. Chairman, for this opportunity to lay down our views. We will be glad to try to answer all of your questions.

[The prepared statement of Mr. Schroeter appears in the appendix.]

Mr. GEJDENSON. Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman.

I appreciate your comments, Mr. Schroeter, and the study as well.

Let me ask you a couple of them. First, in 1990, the reauthorization of MPP contained a provision detailing conditions under which the program participation can be terminated. In other words, that it was not cost effective, et cetera, in line with the GAO study.

Have any programs been terminated yet?

Mr. SCHROETER. To my knowledge, and Mr. Mackie can correct me, there have been no programs terminated, but there have been adjustments in programs and there have been changes in the activities. Some terminated, some just modified. But to my knowledge, there have been no overall programs per se that have been terminated.

But I would stress, sir, that we look at this program on an annual basis. Each company, each trade organization, has to apply each and every year to justify the continuation of their program.

Mr. SCHUMER. How about the Tobacco Associates? They received $12.5 million in MPP funds since 1986. They received $3.5 million in fiscal year 1992. This is a wealthy industry. These are not little co-ops of tobacco farmers.

Why should the taxpayers be subsidizing tobacco leaf promotion? Even leaving the health argument aside. These companies spend, I do not know, I imagine billions but certainly hundreds of millions of dollars advertising their products overseas. The $12.5 million that you have given them is not going to marginally change much at all? How can that one be justified?

And you see, when a program like that still exists, it casts doubt on the whole MPP program to begin with.

Mr. SCHROETER. Well, Mr. Schumer, I believe we no longer promote tobacco under the MPP program. That was legislated I believe by Congress.

Mr. SCHUMER. Yes.

Mr. SCHROETER. Well, I suspect maybe some of the tobacco growers might argue with you about how wealthy they are.

Mr. SCHUMER. Yes. But this money was not going to them. That is the point——

Mr. SCHROETER. Well, it does go to them. I mean that is the idea of the program. If you promote their products overseas, and they can move more product there, they might——

Mr. SCHUMER. In 1992, it says——

Mr. SCHROETER. Hopefully it will enhance their income at home.

Mr. SCHUMER. Tobacco Associates got $3.5 million. You are saying since then you cannot give any new money?

Mr. SCHROETER. They did not receive any allocation for this year, sir.

Mr. SCHUMER. Again, what percentage of your money is given to co-ops that, say, have annual sales of less than $20 million?

Mr. SCHROETER. I don't have that information off the top of my head.

Mr. SCHUMER. The argument in defense of the program is, oh, these are little old people who cannot do it on their own. It is not big companies anymore. Of course, some of the co-ops are our biggest agricultural enterprises.

Could you submit that in writing to us?

Mr. SCHROETER. We can submit that to you, sure.

Mr. SCHUMER. That would be most helpful.

Mr. SCHROETER. The cutoff point was $20 million?

Mr. SCHUMER. Yes. I am just picking something. You would think if a company has sales of over $20 million, they would be capable of finding their own ability to advertise one way or another.

Mr. MACKIE. Can I interject?

Mr. GEJDENSON. Please.

Mr. SCHROETER. Mr. Mackie has one.

Mr. MACKIE. Mr. Chairman, can I interject on that?

We do not have the information on a proportionate funding by size of firms. We are in the process of collecting that information

now, as a result of the appropriations process last year. When we get that information available, we will be furnishing it to you.

Mr. SCHUMER. When do you expect that to be available?

Mr. MACKIE. We would hope to have it by June is what we are shooting for.

Mr. SCHUMER. Before we go through with the appropriations?

Mr. MACKIE. That is our goal.

Mr. SCHUMER. OK. Thank you. I would hope that you would have it ready before the appropriate, in any case, so we might look at it.

Thank you, Mr. Chairman. I yield back my time.

Mr. GEJDENSON. Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

I was interested in your testimony that we have an ag surplus of $18 billion in this country. Is that right?

Mr. SCHROETER. Yes, sir.

Mr. ROTH. It seems to me that other companies could look to ag for ways to reduce our trade deficit. What do you think?

Mr. SCHROETER. Well, I think that was the point I was trying to make, sir.

Mr. ROTH. When I look at this program, does not the government really pick the winners and losers? There is always a debate here. Some people say we should not be picking winners and losers, but with this program, are we not just doing that?

Mr. SCHROETER. In terms of among agricultural firms, you are asking?

Mr. ROTH. Well, yes.

Mr. SCHROETER. Well, yes. The allocation process, one factor of that we do take into account is past performance. I mean if a trade organization or a firm is not performing in terms of its exports, that is factored into what they may receive the next year. So in a certain sense——

Mr. ROTH. How do you pick these firms that get this government help? How do you get a firm onto your program?

Mr. SCHROETER. Well, there is a whole series of criterion. Mr. Mackie can walk you through them if you would like. There are about seven or eight criteria that we use with a formula to try to determine what the allocation—

Mr. ROTH. If you could just in a quicker view do it, I would appreciate it, because in reviewing your list of recipients, I see virtually no money for dairy. You know, how can that be justified—for tobacco but not for dairy? Milk is nature's most perfect food.

Mr. SCHROETER. No question about that. But hopefully, you know, I think——

Mr. ROTH. Then why do we not have more dairy on here then to take good care of our kids overseas?

Mr. SCHROETER. Number one, I do not know how many dairy firms actually applied for funds.

But, Phil, do you want to add to that?

Mr. MACKIE. The Dairy Promotion Board is a participant in the project in the 1993 year. Mr. Roth, I would respond, to followup, and there are dairy companies which participate through the programs I think of the state and regional organizations. We do not——

Mr. ROTH. But if you will forgive me. It is very small. It does not amount to much.

Mr. MACKIE. The proportion of funding going to dairy?

Mr. ROTH. Yes.

Mr. MACKIE. That is correct.

Mr. ROTH. So it is more or less just token dollars. It is not what I consider real help.

Mr. MACKIE. Well, token dollars is a definitional term. But I would say we pick winners and losers in the sense that we respond to the applications of individual organizations and companies. We do not ahead of time set up an allocation of funds by commodity. But we allocate money to firms and organizations on the basis of application criterion requirements that are set up. In other words, we set the framework up. The organization applies and we judge their application against the criteria of the legislation and the regulation.

Mr. SCHROETER. If I could add to that. I think, of course, in the past, there has been a tendency perhaps for the dairy industry overall to be more concerned about the domestic market, and protection of the domestic market. But there is a change taking place in dairy. I would hope that in coming years we will see a more active interest in the export market by our friends in the dairy industry.

Mr. ROTH. Well, let me just say. Yes, I do too. I hope that they get involved and I think they are trying. But, you know, they have a lot of competition overseas because they are so heavily subsidized in Europe.

But I am impressed that ag has an $18 billion surplus.

But maybe you can help me. How do we justify using taxpayers' dollars to promote these products overseas for these large companies?

Mr. SCHROETER. Our philosophy in running the program has been, of course, to try to expand exports and to try to use the best means available to do that. And the fact of the matter is, of course, there are large firms that are involved in the export business.

We have not, in the operation of the program, we have not differentiated among the size of firms, very frankly. We have tried to use firms as a vehicle to carryout the program.

Mr. ROTH. Well, with the deficits that we have, yes, we want to promote exports, but we have to take a look at how our taxpayers dollars are being spent so that we can make a good case for the taxpayer when it is done.

Thank you.

Mr. SCHROETER. Thank you.

Mr. GEJDENSON. Thank you.

Mr. Fingerhut, any questions?

Mr. FINGERHUT. No.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Yes. Thank you, Mr. Chairman.

One of the ways it would seem that some of the criticism of the MPP could be reduced would be to focus most of the resources through the commodity or the generic food organization. Some of them are quite good. I wish they all were. For example, the Amer-

ican Soybean Association has a good market promotion and research program.

Rather than so much of the funds going directly to firms, why could we not eliminate some of the criticism of choosing among firms and simply put it to a food industry or an association or an agricultural commodity association?

Mr. SCHROETER. Well, that is a good question, of course, and that gets into the very basic issue of generic versus branded programs. I think the difficulty, Congressman, in the high-value sector, which is basically what the MPP is about, sales of these products are generally made on a branded basis. And if you want to move to effectively promote these products, you have to look at the branded aspect of the way these products are moved.

Generic promotion certainly has a role, no question. And about two-thirds of the MPP funds do go for generic promotions.

But our view is, and I think it has been Congress's view up until now, that you cannot ignore the branded aspect if you want to be most effective in promoting these products abroad.

Mr. BEREUTER. Well, that, in fact, was the third argument that I raised. That people in Southeast Asia, for example, we have such large potential markets for our processed food products. They do buy brand. And if you focus it strictly on the Meat Federation, for example, or the Fruit Federation, Root Marketing Federation, you still may not have the impact of people actually picking the particular American brand from the shelf. And that is, I guess, the essence of your argument.

Mr. SCHROETER. Yes.

Mr. BEREUTER. So it would need to be then a balance between the kind of generic promotion for a commodity or a food product category and the individual assistance to firms selling within that category?

Mr. SCHROETER. Yes, that is correct. We put a heavy emphasis on generic advertising. We think that overall that the program should be essentially generically based.

Mr. BEREUTER. Now, what kind of proportion do we have in those two general categories today? Can you give me an estimate, a ratio?

Mr. SCHROETER. As between generic and branded?

Mr. BEREUTER. Right.

Mr. SCHROETER. About two-thirds of the promotion moves toward generic.

Mr. BEREUTER. I see. Thank you. Has that been somewhat steady ratio?

Mr. SCHROETER. I believe it has.

There is another factor here, if I might add. There are a few industries that still have not—how shall I say—organized themselves sufficiently to carryout a generic program, and in those cases, we have done an entirely branded program. California Citrus is one example.

Mr. BEREUTER. We are going to hear from some of the prime critics of the MPP shortly, and I want to give you your best opportunity to answer one of their areas of criticism.

The GAO says that the FAS has failed to establish either program or market priorities for the targeting of MPP funds. Is that

accurate? If so, what is the rationale for that failure? Or I will not put it that way. What is the rationale for that decision? Is it accurate, first of all? Is that a reasonable charge? If it is not, here is your best opportunity to provide a start at refuting that argument.

Mr. SCHROETER. No, I do not—from my standing, and I am rather new to the program, but from my standpoint and what I have seen and what I have discussed with Mr. Mackie, I do not think it is an accurate statement.

Mr. BEREUTER. Do you set priorities? Do you set targets?

Mr. SCHROETER. We do have within our own evaluation system a system of setting targets, a system of setting priorities. And, of course, when companies come in with their applications, past performance, whether they are promoting, and so forth, these are all factors that are taken into account.

So I think we have factored these in to the whole allocation process. There are some legitimate criticisms, I grant you, in terms of past years, but I think we have improved the program substantially here.

Mr. BEREUTER. Mr. Schroeter, I want to take the arguments, the criticisms, of the MPP that come forth today and that came in the previous session and provide them to you for an opportunity to respond for the record. I hope you will take full advantage and put some detailed work in a timely fashion in those answers. I think it is important we have those facts.

And, Mr. Chairman, I would assume that without—well, with unanimous consent, this would be made a part of the record.

Mr. GEJDENSON. Without objection, so ordered.

Mr. BEREUTER. Thank you. Thank you, Mr. Chairman.

Mr. GEJDENSON. Any questions, Ms. McKinney?

Mr. BEREUTER. I think—I am sorry, he had his hand up to give——

Mr. SCHROETER. Mr. Mackie I think wants to add something.

Mr. MACKIE. Could I supplement that just briefly in terms of targeting, and I will just run off the six or seven criteria that we look at specifically.

Mr. GEJDENSON. Please.

Mr. MACKIE. We look at the presence or absence of an unfair trade practice, which is set up in the legislation as a priority consideration for selection. We look at the size, the willingness of the individual organization to put up their own funds in a cost-share basis.

We look at the size of the budget that they are requesting in relationship to the value of their export. We look at the size of the budget that they are requesting in relation to the increase, the goal that they set for increasing exports. And we look at that particular factor in relation to what they said the year before, so that if they did not meet their export projections of a year ago, it works as a negative in terms of allocating the funds for this year.

And we looked at the degree to which the commodity is processed in the United States, which is a requirement which came into the program last year.

Mr. BEREUTER. Good.

Mr. MACKIE. I would like to supplement one other factor in terms of allocation of money to specific companies. Very few cases does

FAS allocate money directly to companies. In most cases, that is done through the participating organizations, which are generally types of commodity organizations that you described.

For example, the Meat Export Federation and the Poultry Export Federation have submitted proposals which are a mix of generic and branded advertising promotion programs. And they in turn allocate money to individual companies which export their products on the basis of criteria which they develop and are approved by us.

And so the organizations themselves have—the viewpoint is that branded promotion is the integral part of their program.

Mr. BEREUTER. So nearly all of this money flowing to individual companies have those decisions made by the trade association under a criteria that you have agreed to.

Mr. MACKIE. That is correct.

Mr. BEREUTER. Thank you.

Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you.

Ms. McKinney, any questions?

Ms. MCKINNEY. Yes, sir, Mr. Chairman.

Actually one of my questions though is for you. The Ag Committee has at least had one briefing on this program, and I am wondering who really has jurisdiction? Is it a shared jurisdiction?

Mr. GEJDENSON. A shared jurisdiction.

Ms. MCKINNEY. I see.

OK. And then finally, I would just say that I have been told at least that our Georgia poultry farmers benefit from this program. But I do not know if it is 2 or if it is 2,002. So what I am interested in is finding out what the benefit is to Georgia, and specifically to small farmers and small businesses in Georgia, because as it appears now, this program has the trappings of welfare for the well off.

Is that some information you can get for me?

Mr. MACKIE. We would be happy to supply you with that information.

Ms. MCKINNEY. Thank you.

Mr. GEJDENSON. Well, we thank you. We hope that you will come back with the information Mr. Bereuter asked for. This program is going to get a very critical review by the Congress. We have got tough decisions to make on trade. Trade is clearly a critical aspect of America's recovery and we have to be able to spend those dollars in the most effective way.

Thank you.

Our next panel is led by a regular witness before our committee, Dr. Allan Mendelowitz, Director of the International Energy and Finance issues of the General Accounting Office. He is accompanied by Richard T. McGuire, Commissioner of Agriculture, State of New York, President of the Eastern U.S. Agricultural and Food Export Council.

Mr. Schroeter, would you like to stay so you can defend yourself against the scurrilous attacks by Mr. Mendelowitz and possibly others? And you can bring your colleague with you. Why do you not stay up there. We will save some time if there is any cross fire that occurs.

You can sit right at that table right there where there is a microphone if we need you.

Mr. Mendelowitz, as you give us your testimony, the one thing that I am not sure whether you have covered, but one of the things we do when we provide export enhancement, and granted it is normally in the concessional loans and guarantees against political risk and what have you, we never seem to get particularly concerned when we do a promotion with Boeing or large corporations in my state and elsewhere that do manufactured products.

It seems to me that there is some rationale that just as promoting spaghetti sauce may not be the answer, but if you are promoting Paul Newman's spaghetti sauce, a Connecticut product, if I can put a plug in at the hearing, or a brand name hamburger chain, or what have you, that they may have the best opportunity for marketing American products.

On the other hand, I think that the one thing that I am not convinced of at this point is that the taxpayers are leveraging any additional activity, either on the part of the companies or benefit to American sales.

And I would hope that you might try to tie that together for me, the kind of balance—there is an instinct in this institution to want to just help small companies and figuring the big ones can take care of themselves. But when we sell jet engines from Pratt-Whitney or our competitors at other American companies, it is a big corporation.

We understand that is the way lots of small shops get their jobs. I think the same can be said that just simply because it is a large corporation does not mean that it is a bad program, but I think we have to demonstrate to the taxpayers that it is a rationale and smart utilization of taxpayer dollars to leverage additional activity that ends up meaning more jobs and more profit in the United States.

Thank you, sir.

STATEMENT OF ALLAN I. MENDELOWITZ, DIRECTOR OF INTERNATIONAL, ENERGY AND FINANCE ISSUES, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY PHILIP THOMAS, ASSISTANT DIRECTOR FOR AGRICULTURAL TRADE ISSUES

Mr. MENDELOWITZ. Thank you, Mr. Chairman.

First I would like to introduce Mr. Phil Thomas, who is our Assistant Director for agriculture trade issues and he is here to help me respond to any questions you might have.

And secondly, I would like to read a fairly shorten statement and submit the full statement for the record.

Mr. GEJDENSON. Without objection.

Mr. MENDELOWITZ. The Market Promotion Program was created to encourage exports of U.S. agricultural products. It focuses primarily on high-value products, such as fruits, nuts and processed products, and gives priority to products adversely affected by unfair foreign trade practices.

From fiscal year 1986 through fiscal year 1993, over $1.25 billion has been authorized for MPP and its predecessor, the Targeted Export Assistance Program.

The MPP operates through about 65 not-for-profit associations that either run market promotions themselves or pass the funds along to private sector companies to spend on their own market promotion efforts.

About 60 percent of all program activities involve generic promotions with the remaining 40 percent for branded or brand-name promotions.

While FAS has made improvements in the management and the operation of the program, we believe that there are still problems. The MPP's goals of encouraging the development and maintenance and expansion of agricultural exports are broad enough to justify program support under any market situation. The Foreign Agricultural Service, which administers MPP, does use a number of factors to allocate MPP funds among the various eligible applicants. However, the current funding process does not address a number of important factors.

One, is that FAS currently has no way of assuring that money provided under the program is supporting additional promotional activities rather than simply replacing funds that would have been spent anyway.

And we view this as one of the most important criticisms that we make of the program. If the U.S. Government is spending money to achieve a public policy objective, there should be some elements built into the design of that effort to assure that, in fact, the public policy objective is being achieved.

Now, methodologically it is very hard to do a quantitative assessment that, in fact, in a convincing way links export promotion efforts with actual export sales. And there has been a lot of controversy over the numbers that have been provided as to what, in fact, has been the result of this program.

But if we step back from looking at the outcome of the program and just look at the activities that take place, there is nothing about the design of the program that tries to ensure that something additional is taking place in the way of promoting U.S. exports.

And I would like to contrast that with, for example, the Research and Experimentation Tax Credit Program which tries to encourage expenditures and efforts in research and experimentation.

In order for a firm to qualify for the tax credit benefits under that program, it has to make an effort above and beyond what it was doing in prior years. For example, a firm might have a 3-year base period of effort on R&D used to determine its eligibility for a tax credit. It only receives a tax credit for efforts that are made above and beyond the level of effort of the preceding years. That does not guarantee that the program will have every penny spent on new efforts, but it helps to ensure that at least some of it, if not the majority of it, is spent on new efforts.

Next, FAS lacks criteria regarding the length of time participants can remain in the program, or the circumstances under which beneficiaries should graduate from the program. And this again is a very important criticism because if participants do not see the program as an aid to break into new markets, the program begins to be viewed as an entitlement which sustains ongoing efforts year after year. The program does not focus support on efforts

to achieve a new presence in a market in which the United States formerly had no export sales.

Third, FAS has not focused on the issue of participation of foreign companies, and the desired distribution of program funds to firms of various sizes.

You specifically asked the question regarding the role of large companies, and you gave an example of how exports of U.S. aircraft made by large companies, in fact, do benefit from export credit guarantee programs from the Ex/Im Bank.

The argument that FAS makes in support of providing assistance to large firms based upon the fact that they may be able to more effectively use those funds is, I think, a legitimate argument. I think there is legitimacy to the argument. But that is not the only argument that has to be made. Along with the effectiveness argument, you have to make a needs argument. And while a large company may, in fact, be able to more effectively use those public funds, such a company may have such resources and capabilities that, in fact, it is hard to make the case that that company needs it. And if there is no need, it does not seem like an effective use of U.S. Government funds.

And then lastly, FAS lacks the data to fully apply its own criteria for allocating program funds. FAS is currently evaluating MPP in response to a directive from the Congress. We want to enter a note of caution, and that is, methodological obstacles make it very difficult to establish a causal link between MPP activities and increased exports. And one should treat all the claims with respect to exports and employment, et cetera, with a certain degree of caution. I, for example, would be much more comfortable with seeing, at a minimum, a range of possible outcomes rather than a point estimate, and that is really an observation as a social scientist more than anything else.

Thank you very much.

[The prepared statement of Mr. Mendelowitz appears in the appendix.]

Mr. GEJDENSON. Thank you, sir.

What I would like to do is hear from Mr. McGuire and then we will question the panel.

STATEMENT OF RICHARD T. McGUIRE, COMMISSIONER OF AGRICULTURE AND MARKETS, STATE OF NEW YORK; PRESIDENT, EASTERN U.S. AGRICULTURAL AND FOOD EXPORT COUNCIL

Mr. MCGUIRE. Thank you very much, Mr. Chairman.

I am Richard T. McGuire, Commissioner of Agriculture and Markets, State of New York; and President of the Eastern U.S. Agricultural Food and Export Council.

I appreciate the opportunity to testify before the committee on this subject.

I represent also a unique group of four participating organizations in the Market Promotion Program. Those are the four regionals in the United States, and they are called Regional Trade Groups. The State-Regional Trade Groups are organizations of State departments of agriculture which have joined together to

share resources and develop comprehensive multi-State programs that stimulate exports from our regions.

Our State marketing staffs and the individuals we employ in the State-Regional Trade Group offices work closely with the Foreign Agricultural Service, private business, and State and regional commodity organizations to carryout training programs, market research, trade missions, food show exhibits, and other promotions for high-value U.S. food and agricultural products.

The State-Regional Trade Groups have been developing export market opportunities in this manner for over 20 years. We are pleased that President Clinton has expressed his strong support for expanding agricultural exports.

Today, more than ever it is critical that we develop global markets in a world economy that continues to integrate. In view of increased competition in traditional domestic markets, job retention as well as job growth in the food and agricultural industry will depend, to a large extent, on the ability of our business community to effectively take advantage of international market opportunities.

The Market Promotion Program, which has proven its capacity to increase the sale of U.S. food and agricultural products abroad, is one very effective tool already in place to achieve this objective.

The Export Council, and together with its counterparts, State-Regional Trade Groups in the South, Midwest and West, are well positioned to help the MPP obtain its fullest potential.

Programs and activities of State-Regional Trade Groups, which were funded in part by the MPP in 1991, the last year for which complete statistics are available, help to create 27,000 new jobs from increased export sales; sustain 80,000 jobs which depend on continued export sales of companies participating in State-Regional Trade Group branded and generic programs; increased Federal tax revenues from increased export sales by an estimated $93 million, giving the government an 8-to-1 return on its MPP investments through State-Regional Trade Groups.

And also increased total export sales of participating companies by over 50 percent, from $435.9 million in 1990, to $655.5 million in 1991. This $219 million of additional export sales was 25 times greater than the total amount of MPP funds allocated to these companies in 1991.

Additional information concerning the success of State-Regional Trade Groups export programs is contained in the Fact Sheet, Exhibit A, which I have included as an exhibit with my statement, and which has been provided to the subcommittee.

It is undeniably clear that the MPP has been effective in increasing export sales of high-value U.S. food and agricultural products, the effect of which has been to increase jobs and stimulate the economy. It is for this reason that the State-Regional Trade Groups strongly endorse the Clinton administration's call in its economic plan for continuing the MPP at current funding levels.

I believe that our State and regional structure makes us the logical conduit to the small and medium-size businesses and we will continue to work with the U.S. Department of Agriculture to improve the services to them and enhance the effective use of the MPP.

Successful exporting requires any business to hurdle numerous obstacles, fair and unfair, any one of which could cause failure and discouragement especially to a new-to-export business. Small and medium-size business, which tend to possess limited resources for expansion need this help.

The State-Regional Trade Groups, with funding from MPP and help from FAS, have conducted dozens of training seminars to help inexperienced exporters to overcome the challenges of exporting. MPP funding has helped hundreds of these companies attend trade shows, collect trade leads, and generate export sales.

The State-Regional Trade Groups have been particularly effective in utilizing the branded product component of the MPP to assist small and medium-size firms.

I have included an exhibit with my statement which contains an impressive list of the many small and medium-size firms, many of them from your States.

An example of a success story, and you have asked for some specifics. Let me give you one. Is a typical of any State that is in the program.

A new-to-export company in New York State that attended an Export Council Training Seminar last may where it learned about foreign sales opportunities and took the initiative to begin exporting. A company spokesperson told the Export Council that the Mexico City Trade Show he learned about at the seminar and attended last August generated enough sales to insulate the company from the U.S. recession. Thereby preventing the layoff of 10 employees. The company is projecting first-year sales of its products in Mexico, without that NAFTA, I might add, to be $750,000.

The Mexico City Trade Show was initiated, sponsored and managed by the four State-Regional Trade Groups with the cooperation of FAS, with financial assistance from the MPP program.

By and large, we believe FAS is doing a good job in administering the MPP. While there have been problems in the past, FAS has addressed most of the significant ones. Indeed, our own Export Council made some mistakes several years ago in administering our MPP and TEA Programs, and those problems have been remedied. We have arrangements in place to prevent their recurrence. And we passed our FAS Compliance Review this year with flying colors.

While the State-Regional Trade Groups have realized many successes, we readily acknowledge that the MPP, like many programs, can be refined and improved.

Let me comment that economic conditions, both here and abroad, are continually changing. New and developing export opportunities can surface at any time. Increased levels of production, changing consumer demands, and the application of new technologies, can all present new challenges to our export capabilities and therefore differences in direction.

Our State-Regional Trade Groups will continue to pursue a dialogue with Secretary Espy and FAS officials to improve the MPP so it can help more companies who have the potential of moving agricultural products into the world market to do so.

I recognize and share the concerns of the administration and the Congress for changing the MPP to target companies in greatest

need of assistance. In considering future changes to the program, I suggest that everyone involved consider how new program requirements would affect the capacity of U.S. companies to succeed in the highly competitive international marketplace.

While the United States is currently enjoying significant growth in high-value food and agricultural exports, due in part to the MPP, it has major worldwide competition from member states of the European Economic Community and other countries. The sales volume of the E.C. high-value product exports to worldwide destinations is still greater than that of the United States. Governments in E.E.C. countries are extremely aggressive in promoting their high-value food and agricultural products throughout the world. And are very generous in helping their businesses to develop customers in foreign countries.

We cannot make similar budget commitments. However, the combined expertise of the FAS, the extensive staff efforts of the states, and the continued funding of the MPP will do greatly to level the playing field.

In conclusion, I want to reemphasize the strong support of the State-Regional Trade Groups for the MPP program, and the beneficial results it has yielded for food and agricultural businesses in each of our regions, in each of our States.

I thank you for your interest in receiving our views. I will be glad to answer any questions.

[The prepared statement of Mr. McGuire appears in the appendix.]

Mr. GEJDENSON. Thank you.

I think we will be able to get in one round of questioning at least for Ms. McKinney, and then we will see if we can go beyond that.

Ms. MCKINNEY. Thank you, Mr. Chairman.

I just have two questions. One is if larger companies were not allowed to participate in this program, what would happen? Whoever can answer the question.

Mr. MCGUIRE. Well, I will comment a little bit.

Let me say one of the things that we seem to be missing in our total discussion here is a recognition of how marketing happens and commodities move to market both in the domestic and in the world market.

Very few farmers now market their products directly to the consumer. They go through a variety of moves in their becoming a commercial product and their ability to export it.

We have some organizations that have been mentioned and many others that have not, that have the expertise for marketing and are already in the business. And I am sure that farmers and farm organizations look to those people and their expertise, and have developed marketing patterns that use those major corporations because they have already moved much product into the world markets.

I think we are combining that, expanding on that, and also farmers are becoming more adept with the technology available to begin to explore new markets and I think it will get closer to the farmers and smaller companies and smaller organizations.

Ms. MCKINNEY. Mr. Chairman, if I could ask one more question.

Mr. GEJDENSON. Yes.

Ms. MCKINNEY. And about the preference, is there a preference given for U.S.-owned companies over foreign-owned companies?

Mr. MENDELOWITZ. The argument that FAS has made historically is that the emphasis should be on an examination of what product is being exported and what the U.S. content is.

Now, up until the fiscal year 1993 funding allocation, no disability was imposed upon foreign companies with respect to their eligibility under the program. Because of direction received from the Congress, FAS in 1993 determinations on funding allocations, took a few points away from companies that were foreign owned. However, they were still eligible to be in the program. The emphasis in the past had only been on the U.S. content of products that were being exported. Now foreign-owned firms are at somewhat of a slight disability compared to U.S.-owned firms.

Ms. MCKINNEY. Thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you. Sir.

Mr. MACKIE. I would just like to followup on the question of adding additional criteria to the program. And I think the general effect of this—and it is kind of like a mathematical equation. The more objectives you add into the program, the less ability you have to accomplish any one of those objectives. The legislation currently sets increasing exports is the primary objective of the program. And I think once you put—for example, on the company size, if you put a limit on company size, which is a perfectly policy-oriented question which you can decide to do, but it will tend to have the effect of lessening the accomplishment of the export objective.

Mr. GEJDENSON. The gentleman from Ohio.

Mr. FINGERHUT. Thank you, Mr. Chairman. I appreciate you letting me go out of order to ask one question.

Mr. McGuire, toward the end of your testimony you touched on a point that I frankly had been waiting to have arise today, and that is the competition we face from competitors, either countries or market groups like the E.C. in this area.

In putting what the U.S. Government ought to be doing to assist its businesses in export promotion in context, we ought to know what our competitors are doing to assist their businesses, it seems to me, large, small, quality enhanced, not quality enhanced.

And I am wondering if you have the ability or anyone else on the panel has the ability to expand on the question of what our market competitors are doing in this area to assist their businesses through government subsidies, and ought we not have that in mind as we decide what to do with this program?

Mr. MCGUIRE. I will comment on it as to my opinion and my knowledge of the subject. I am sure there are others on the panel more qualified that I.

Let me say that I think our view of export has generally been arrived at through the discussions of the GATT negotiations and what we read in the paper about how much grain we are selling to Russia and whether we are going to get paid for it or not.

Let me point out that that is exactly what brought the MPP into existence. For most of the major commodities—corn, wheat, cotton, soybeans, and so forth—the negotiations are conducted not by farmers but by the government itself in world trade agreements and pacts, aimed at helping world trade.

When we get to the value-added products particularly, and more of the nonprogram agricultural production, which, by the way, is 60 percent of the total agricultural production, then we begin to need the expertise of marketing and promotion of our products that the government is already doing or circumventing for the major commodity farmers and the products that they grow.

Then we run into the question of how do we get into the market, how do we compete in the market, how do we compete against other countries in third markets where we are both competing. And that expertise has to come from FAS. They are the people that have that material, have that information, and that, in my opinion, is where it combines very well in the MPP program with the contact back at the producers' end, the farmers' end, and the people that are handling the product. And I think we need that.

Mr. MENDELOWITZ. Mr. Fingerhut, I would like to add my thoughts in response to your question.

You raised a good point. Clearly, foreign subsidies and the impact they have on the U.S. ability to export must be one of the factors considered in determining what types of programs the United States offers. There is no question about that. One of the reasons why we have been such strong supporters of the Export Enhancement Program, which is the major direct agricultural export subsidy program, is that it is an effort directly designed to take the profit out of subsidies used by the European Community. The objective of the effort is to bring the EC to the negotiating table to try to end those subsidies.

But just because there are foreign subsidies does not mean we should just throw money willy nilly out to the U.S. industry.

If you want to look at what other countries do, you can learn some very, very interesting things about what we might do. For example, we have suggested in recent years that the FAS needs to devote more of its resources and technical capability to marketing rather than to simply reporting on what is going on with respect to foreign agricultural markets.

Marketing expertise can be very helpful. For example, a couple of years ago the French Government, their export folks, did an assessment of why French apples were selling so poorly in the British market. What they discovered was that French apples tended to be riper and larger than the product that British consumer wanted. The British consumer wanted a smaller apple, a greener apple.

They did that market research. They then fed that information back to the apple growers in France. The result was they altered when they picked their product, and had a very substantial increase in their exports of apples to the British market because the marketing information was used to effect the product produced.

This is really critical because this is something we do not do enough of. Instead of simply trying to use our marketing and exporting assistance to sell the surpluses that we have here, we should be trying to identify what the foreign markets are, feed that information back to our producers, so, in fact, we can grow products for which there are markets overseas rather than trying to simply find markets for what we grow in surplus.

Mr. GEJDENSON. The committee will stand in recess for about 5 minutes.

[Recess.]

Mr. GEJDENSON. Mr. Mendelowitz, it is one of the comparisons of recent that we hear a lot about is the comparison between how much we spend to subsidize agricultural exports, both in this program and other programs in general, as compared to what we do to try to help the industrial sector.

And it seems to me one of the questions that you have to kind of focus in on in that is—one is that good strategic policy for the United States, and how does that compare to what our European and other competitors do so that is the world in a massive subsidy program and agriculture so that if we were to back off in agricultural subsidies that we would simply be shut out of the markets, ending up with massive surpluses?

Or could we better, one, putting aside for a moment the question of whether the brand name in this particular program works, are we rationally using our export enhancement dollars in this and other programs? Are they rationally divided between agricultural and manufactured and services? How does that compare to our allies and competitors?

Mr. MENDELOWITZ. I think that the issue of foreign subsidies is obviously an important consideration. But there has been a certain implication in the discussion this morning that seems to suggest that only agriculture faces subsidized foreign competition. And this is clearly not the case.

For example, a major beneficiary of foreign subsidies is Airbus Industries. I cannot remember off the top of my head the sum total of subsidies received by Airbus Industries, but I seem to remember hearing numbers like $7 billion and $12 billion, and I cannot remember which it is.

Now, does the presence of these massive subsidies for Airbus mean that we should in turn subsidize McDonnell-Douglas and Boeing? Well, if the argument is that we should subsidize agricultural exports just because foreign agricultural exports are subsidized, then that argument should apply equally to subsidizing Boeing and McDonnell-Douglas.

Well, obviously the answer cannot be that simplistic. And I guess my answer to your question is this. When you decide what effort you are going to make, a lot of things enter into the equation if you do it in a strategic way. You look at which U.S. products are most competitive. You look at what the impediments and the barriers are to U.S. products in foreign markets. You look at what needs to be done to overcome those impediments. You look at what the government can do and what the government appropriately should do. You look at what the customer can do for himself. What the U.S. exporter can do for himself versus what only the government can do.

And you weigh what the impact on exports is. What the impact on jobs is. And you come up with an allocation across U.S. industries that serves our national interest to the maximum extent.

We do not have anything in place at this time that does that. The fact that U.S. agriculture exports face subsidized competitors is a rationale that should be factored into the equation, but it does not mean we should just willy nilly throw money at them.

Mr. GEJDENSON. Mr. Mackie, you made the statement earlier, if I understood it correctly, that adding additional criteria would basically reduce the effectiveness of the program. Is that correct?

Mr. MACKIE. It depends on how you measure the effectiveness of the program, Mr. Chairman. I think we have set the program up with the primary goal of increasing agricultural exports. And in that context, the vehicle that is used is new to a large company, small company. That sort of thing.

Mr. GEJDENSON. Are you specifically referring to the large/small battle at that point, maybe you are right.

It seems to me the crux of the debate here is whether or not we can come up with criteria, and I think we are going to come up with new criteria. So I guess what I am asking for is your help in making sure that we come up with a modification, if this program is to survive, and I think that is a question as well. It may not survive at all.

But if it is going to survive, can we come up with a set of guidelines that will give Members of Congress and the taxpayers a greater sense of confidence that we are getting the maximum benefit for our efforts.

And I understand that it is some political easy ground, to put it in the nicest terms, to pick on any program that goes through McDonald's or helps McDonald's do advertising because they are large corporations and it is easy to say, gee, they ought to be doing it all on their own. Maybe they should.

But maybe what we need to do is design a program that can give greater confidence to those of us who have oversight into the taxpayers that we can better demonstrate the benefit in increased sales in industries that do not have the resources to do it or markets developing, in the sense with what Mr. Mendelowitz said, in finding products that maybe we can market better overseas. Maybe we ought to shift some of our research to if there are better crops to market.

You know, I think of the story of the small town in Maine that suddenly—you know, the sea urchin center for Japan. It was something that used to be an annoyance to the fishermen, it is now a hot commodity and they are making money. I mean how do we do that in your program to maybe get it focused in a manner that makes that you get the maximum benefit for profits overseas, jobs, and what have you, in this country and let it stand the test of a light-of-day examination?

Do you have any suggestions in that area on how you would change the program if you were untethered by an agency and just a public citizen with an incredible amount of knowledge on this one area? We are not asking for the Department's position. We want to know what your position is.

Mr. MACKIE. That is a little bit of an unfair question, since I have been so deeply involved in the development of this program, sir. But I think the question that you ask is one that is broader than this particular program. Really the marketing operation is a wide-scale thing. It involves new products. It involves research. It involves reporting on developments overseas, as Mr. Mendelowitz pointed out. It involves all those things.

However, having said that, within this program, you know, we are making a major effort to ensure and to encourage access by all comers to it. We want to be fair to all comers, large, small. And one of the things which Mr. McGuire mentioned in his statement was the seminar program which we ran for companies around the country this year. We did about 36 or 37 of those in conjunction with the regional organizations.

There is an effort undergoing to pull in new firms and new products into the market.

Mr. GEJDENSON. Who said that?

Mr. MACKIE. There is a significant, you know, small business, new-product aspect to this program. It is not all McDonald's and Gallo. There is over 600 companies that participate in the branded program.

Mr. GEJDENSON. Well, I guess what I would say to you is I do not doubt that you have used all your abilities in trying to make this program as Congress and the Executive designed it, to work as effectively as it can. But if you were given freer reign, and I do not expect you to answer right now, how would you use these dollars more effectively in exports overall and in specific. If you think about that, maybe get back to me later.

Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. McGuire, thank you very much for your helpful testimony. You heard before Mr. Schumer, from your home state, is a critic of the MPP. He is a responsible critic, as is usually the case. He is very responsible and energetic in the way he approaches his duties here.

I wonder if you have ever had an opportunity to visit with Mr. Schumer and other members of the urban delegation of New York State?

Mr. MCGUIRE. More opportunity than I enjoyed. [Laughter.]

Mr. BEREUTER. Well, maybe you ought to get somebody else to meet with him from the agency if that is how it has gone.

Do they understand the significance of the program to New York agriculture?

Mr. MCGUIRE. Well, let me point out. Everyone sees the program from a different point of view and a different location and for a different reason.

And I sense that among the people here today, whether they were identifying an elephant blindfolded in the old story, or whatever it is.

Is it a transfer of government funds to those people in need? That is a means test? Is it an effort to export the most possible agricultural products? Is it an effort to help small businesses? Everybody has a different view on what the program ought to be doing. And I do not think that has been clarified in everybody's mind.

I think that FAS is exactly right in the original congressional concept to move products. And you use the vehicles that were being the most successful in doing it already and maximize their capability.

Now, back to your specific question, Mr. Congressman. Congressman Schumer is from New York City, but he also happens to have in his voting district a winery that is very heavily involved in the

wine production. And they have used the MPP program. At the present time they are not using it. I do not think he has found that out yet. And so he may get more interested in it when those people contact him, and I will make sure that they do.

The point is that this opportunity is a growing and a nebulous opportunity. Historically we have one way or another subsidized major commodities. We have a very growing international market and a very static domestic market.

And the opportunities are going to increase rapidly as we go to double the world population a predicted in the next 20, or 30, or 40 years, whatever the timetable is, depending on how many wars and famines correct that figure.

I think the opportunity for export is not in the major commodity areas as much as it the value-added product areas. And we are new in that game. That has been our domestic market previously. And the opportunity for expanding that and doing all the things that Congress is talking about and asking questions about, helping new businesses, helping jobs locally, encouraging new entries into the world market that have never been there before, can be part of the MPP program.

But if that is the case, then Congress must be more specific on that because that may not move large volumes of agricultural products, which is the focus now and which FAS has, I think, been correctly carrying out.

Mr. BEREUTER. Thank you very much. That is certainly some thoughts that are very well put.

Today, our supermarket shelves are a potpourri of foreign products and domestic products. It is a world bazaar in our grocery stores and supermarkets. But shortly we will have only 5 percent of the population of the world living in the United States, and if our products, our processed food products, do not penetrate foreign markets, our growth potential here is quite limited.

Mr. MCGUIRE. I would like to take this opportunity to add one other thing.

Mr. BEREUTER. Yes.

Mr. MCGUIRE. I think particularly in our fruit and vegetable industry, dairy industry, we can compete with any other country, producer, anywhere in the world. I do not think we need to be subsidized. I think our primary concern is we do not know how to do it. We do not know how to make the transactions. We may not know how to make the specific product that was mentioned that they want, in the form they want.

I think we need a lot of help if we are going to expand our exports in those educational programs that we have rather than a straight subsidy program. And promotion is part of that. And I think this is a very small part of the effort and I would say that we have great opportunities in that area and if we can do it, the American producer of the food can compete with any other producer of the food.

Mr. BEREUTER. Thank you.

I have about three questions for you, Mr. Mendelowitz, or for Mr. Thomas.

Despite the problems that MPP may have, do you think that it is worthwhile to have an export promotion program for high-value agricultural exports?

Mr. MENDELOWITZ. We have said on a number of occasions that we think there are some good reasons why the United States should be interested in promoting the exports of high value-added products. One is that world trade in HVP products is growing more rapidly than bulk products, even though agricultural trade overall, as well as HVP trade are not growing as fast as trade in other products generally.

Secondly, HVP products, because there's product differentiation and brand identification, in many cases, are products for which demand tends to be more inelastic than for bulk products, and it is easier to create and hold market niches.

And third, to the extent that HVP products involve more processing, more employment in the United States, they represent greater economic opportunity.

Mr. BEREUTER. Thank you. I am glad to have that clear statement.

My second question area has two related questions in it.

If you were running FAS, do you think your job would be made easier or more difficult by the development of a more specific mandate for MPP? I am really talking about a statutory mandate.

Would eligibility determination for participating trade organizations and private companies be made easier if you had some sort of statutory direction of criteria?

Mr. MENDELOWITZ. FAS's position with respect to implementing this program has generally been to take the mandate, implement it, and really not go beyond the specific direction provided to it.

The extent to which large versus small, foreign versus domestic, and all the other issues enter into the debate, they enter into the debate because FAS has the ability to make changes to the administration of the program that affect these factors. However, it has not felt that it is appropriate for it to do so.

Mr. BEREUTER. Now, what if you were in that job? That is my question.

Mr. MENDELOWITZ. Quite honestly, if I were in that job, the emphasis that I would provide in terms of structuring the program would not be on the issue of large versus small or even foreign versus domestic.

Mr. BEREUTER. But would you——

Mr. MENDELOWITZ. My emphasis would be on restructuring the program to ensure that the funds support additional activities that would not take place without this program. And so I would say that to the extent to which I received congressional direction to do that, I would consider it easier to do my job and to run the program effectively.

Mr. BEREUTER. Right. Last question——

Mr. GEJDENSON. Can I interrupt you on that one.

Mr. BEREUTER. Yes, please do.

Mr. GEJDENSON. Mr. Mackie, do you have a problem with that approach?

Mr. MACKIE. No.

Mr. GEJDENSON. Do you think that makes sense?

Mr. MACKIE. I think the more direction that Congress gives, the easier it is to do your job because the less variables you——

Mr. GEJDENSON. Well, you are the only person who has ever told us that. Usually they want us to go away.

Mr. MACKIE. However, I think on the question—the question which has been discussed on additionality of whether or not a program which is supported through this program would have occurred in the absence of the funding.

You know, a very noble goal, and that we all consider that to be appropriate. The problem with it—there are two problems. First of all, the way we have administered the program, we want to be sure that the funds that we are expending are worthwhile first. And I think we have fairly well accomplished that goal.

There is an extreme I think administrative problem in terms of defining whether or not a specific activity or funding would be in addition to what a company would have incurred in the absence of the program. You almost have to audit their whole market advertising budget to find out whether that is, in fact, the case.

And I think we have had some history with that before.

Mr. SCHROETER. Yes. I was just going to add to what Phil said.

Some years ago, before MPP and before TEA, when we had a cooperator program, we also had an export incentive program for branded products, and we tried to use this base concept in that program. And frankly it was an administrative nightmare. We just could never get it to work right.

As Phil said, it is a noble goal, but there are practical impacts that you just have to look at, operational aspects.

Mr. BEREUTER. Thank you.

Mr. Mendelowitz, the MPP is created largely through the 1990 Farm Bill legislation. I guess almost total direction for the program since it was reorganized comes from that Act. And that direction comes largely from the agricultural committees with especially large input from the House Agricultural Committee.

In your analysis of the program, do you find any element of the program being conducted in a fashion that is contrary to law?

Mr. MENDELOWITZ. No. I do not think we have ever criticized the management or administration of the program for violating the law.

Mr. BEREUTER. Then are you second guessing the Congress, specifically the Ag Committees and the legislative direction that they have given to the MPPD's administrators?

Mr. MENDELOWITZ. No, I do not think that we are second guessing the Congress. Generally, the GAO function is to undertake assessments of how programs are working on behalf of the Congress and then report back to the Congress our analysis and our findings.

If the Congress agrees that what we have identified is, in fact a problem, and if the Congress thinks that we have found a way of improving the program to make it more effective, they take that information and act on it.

If Congress believes that the information we have provided is not useful, then they can choose not to use it.

Mr. BEREUTER. And you could respond to me legitimately that you are under a legislative mandate, including under the Appropriation Bill, to conduct the kind of study that you just did.

Mr. MENDELOWITZ. The answer is yes. And I would say secondly the Congress has I think responded favorably to the issues that we have raised with respect to this program. In the fiscal year 1993 appropriations language, the Appropriations Committees, in fact, have issued a number of directives to the FAS regarding this program that relate to the types of problems we have identified.

Mr. BEREUTER. I think the nature of the study that you have undertaken, if not always in agreement with the approach you have taken, is appropriate.

But I did want to have on the record that you, at this point at least, have found nothing that is contrary to law.

Mr. MENDELOWITZ. That is correct. I have no difficulty making that point clearly.

Mr. BEREUTER. Mr. Chairman, I appreciate these hearings very much. Thank you for the chance to pursue these questions at some length.

Mr. GEJDENSON. Thank you.

And we thank the panel for the testimony and we appreciate the efforts of all. And we always appreciate the efforts of Mr. Mendelowitz and his great staff over there. And we expect you to second guess us and everybody else. That is what we pay you for.

Thank you very much.

The hearing is adjourned.

[Whereupon, at 12:00 p.m., the subcommittee was adjourned.]

APPENDIX

Statement by
Richard Schroeter
Acting Administrator
Foreign Agricultural Service
United States Department of Agriculture
Before the
House Subcommittee on Economic Policy,
Trade and Environment
March 25, 1993

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss the Foreign Agricultural Service's Market Promotion Program (MPP).

This program was authorized by Congress in the Agricultural Trade Act of 1978, as amended by the Food, Agriculture, Conservation, and Trade Act of 1990. In the authorizing legislation, the Congress charged the Commodity Credit Corporation (CCC) to "establish and carry out a program to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program."

The CCC, working through FAS, has designed and implemented a program to help the private sector to expand and develop new overseas markets for U.S. agricultural commodities and products. The MPP supports both generic and branded promotional programs. It has helped the United States expand its share of the fastest-growing segment of the world's agricultural trade, high-value products. By contributing to an expansion of U.S. exports, it has also helped to lessen the Nation's trade deficit.

High-value products already represent two-thirds of total world agricultural trade, up from 54 percent in 1985, and are projected to climb to 75 percent by 1998. About 80 percent of MPP funding is targeted at building exports of high-value products, most of which do not benefit from other government programs.

Also in coming years, and assuming a successful Uruguay Round, there is going to be more interest by our competitors in indirect forms of assistance to increase agricultural exports, particularly high-value products.

With the MPP, we are a step ahead right now with this partnership between government and industry. This partnership includes mutual respect and mutual confidence in shared goals.

As we go about our examination of the MPP, let us keep these facts in mind. We know what we are up against in agricultural trade: inadequate international disciplines that differ from industry to industry, pervasive and massive government intervention, and a myriad of import barriers.

Program Operation and Management

The goal of the MPP program, as outlined in law, is to increase agricultural exports as much and as effectively as possible.

Because there are always more applications for MPP assistance than there are funds available, FAS uses a rigorous application review and evaluation process designed to allocate MPP funds where they will generate the most "bang for the buck." All proposals are measured against evidence of the applicant's program management capabilities, the applicant's strategic plan of program objectives, the program scope, the anticipated program effectiveness, and the likelihood for future success in increasing U.S. agricultural exports. Funding recommendations are further adjusted on the basis of the following factors: the presence of an unfair trade practice; the applicant's contribution (cost-share); budget size in relation to export level and to expected change in exports; market-share goals; prior year's success in relation to goals for that year; and U.S.-origin content. The CCC intends to revise the MPP regulations to include among the allocation criteria the degree of product processing in the United States. This last factor will be added in response to guidance received from Congress during the fiscal year 1993 budget process.

FAS also uses the results of past MPP project evaluations (each activity is evaluated 90 days after completion) to determine the amount applicants will receive for new activities. Where evaluations identify problem areas, programs are adjusted. Where activities or programs have plateaued or aren't cost-effective, they should be phased out. We are using the evaluation process to meet this objective.

However, it is important to keep in mind that market development, including the MPP, is not a one-shot deal that can be boxed and wrapped for the

same use in all countries. Markets vary greatly, from a Denmark where an activity may give immediate results, to a Korea or Japan where results may take years of arduous planning and activities.

The point here is that market development cannot be neatly packaged, as some would suggest, so that it can apply in the same way in all countries. We are in a competitive battle in agriculture, and we need the flexibility to plan our strategy and to carry out our plans.

The MPP is designed primarily to support short-term promotional activities. Funding is made available to non-profit trade associations, and in some cases in-turn to private companies for brand promotion.

In addition, many activities in the Cooperator Program and to a lesser extent the MPP program have a trade or technical servicing aspect, and benefits will occur over an extended time frame. Typically, while programs in a particular market may continue for several years, the mix of promotional activities and the targeted audience shift continually. For example, it is quite common for a participant to conduct research in the first year of a program, participate in a trade show the second year, focus its promotional efforts on trade and industrial users in the third and fourth years, and finally, when the complete infrastructure is in place, concentrate on the consumer sector. FAS is firmly committed to further enhancing the evaluation process and improving the application of evaluation results.

We believe effective evaluation begins with training. Over the past year, we have conducted and participated in several seminars on evaluation techniques. Program participants are also holding conferences and training sessions devoted to program planning and evaluation. I'd like to use the the Southern United States Trade Association (SUSTA) as an example of how one MPP participant completely overhauled its promotional strategies based on its evaluation results.

In the past year, SUSTA redirected its MPP activities from promotions for a wide range of high-value products throughout the world, to promotions for specific regional products in carefully selected markets. SUSTA cites several advantages of its new approach:

-- It permits SUSTA to tailor its market development projects to those markets with the greatest potential. For example, in the past year SUSTA has spotlighted such regional products as Christmas trees in Mexico and Central America, onions in Canada, and pecans in the United Kingdom.

-- It allows SUSTA to do more in-depth market research and to develop strategic plans which better "fit" product characteristics. For example, preliminary research revealed that Canada's vegetable trade had a poor image of Vidalia onions. Thus, SUSTA held a seminar to educate Canadian industry people about the special characteristics of Vidalias before promoting them to consumers in Ontario grocery stores.

-- Finally, focused promotions generate strong industry support. For example, five Vidalia onion growers attended the educational seminar in Toronto last year. When industry representatives are active participants in promotions, it fosters strong ties between the U.S. and overseas trade and makes for a more efficient and effective program.

Keep in mind that all MPP participants have a stake in effective and efficient program management, since they are required to invest their own money in MPP projects. In the case of branded promotions, participants are required to put up at least half of the cost of the MPP activity.

On the subject of branded versus generic promotions, currently about two-thirds of MPP funds are spent on generic promotions conducted by commodity groups. However, FAS believes that to maximize its effectiveness in expanding high-value product sales, the MPP must support the promotion of branded products. Roughly two-thirds of the world's high-value products trade consists of processed items and virtually all of these are produced by branded companies. Brand advertising is often the most effective tool for creating demand for consumer-ready, high-value products. Consumers tend to select products by brand. Branded programs develop product loyalty and ensure identification with U.S. products. Congress recognized these facts and specifically authorized branded promotion under the MPP.

The authorizing legislation for the MPP does not direct participation by size of company or by type of ownership or by type of commodity promoted. However, Congress specifically prohibited the use of fiscal year 1993 MPP funds for tobacco promotion. CCC, through FAS, manages the program in such a way to help U.S. products in a foreign market. The program does not currently differentiate between small or large food corporations in terms of eligibility to participate in the branded program.

FAS is considering how to more efficiently target the funding toward those firms or groups that would otherwise be unable or less likely to promote their products abroad. The FAS will seek the most "additionality" for MPP expenditures; i.e. an increase in exports as a result of the MPP.

The effectiveness of the MPP in contributing to export expansion is also borne out by actual trade data. These data show that U.S. exports of high-value products -- the focus of the MPP -- are the fastest growing segment of U.S. trade. They have more than kept pace with global trade trends and have hit new record-highs in each of the last 4 years. As a result, since the TEA/MPP programs have been in effect, the high-value share of total U.S. agricultural exports has grown from 39 percent in 1985 to 54 percent last year. High-value products have accounted for nearly all (85 percent) of the growth in U.S. agricultural exports since 1985.

It is, of course, important to acknowledge that other factors have also contributed to the growth in exports of U.S. high-value products. These include income growth overseas, reduced trade barriers as a result of trade policy negotiations, and favorable changes in the value of the U.S. dollar.

To cite some specific examples of export expansion of products that have received MPP assistance:

--Export values for table grapes have risen $64 million from 1987 to 1991 at a cost of $8 million.

--Worldwide sales of pears have increased $33 million from 1987 to 1991.

--Worldwide sales of Washington apples have risen $141 million from 1987 to 1991.

--Worldwide sales of sweet corn have risen $55 million from 1987 to 1991.

-- The branded programs of the four regional trade groups -- which include the Eastern U.S. Agricultural Food Export Council, Inc., the Western United States Agricultural Trade Association, the Mid-America International Agri-Trade Council, and the Southern United States Trade Association -- increased export sales by over 50 percent between 1990 and 1991, from $436

million to $656 million. The $219 million in additional branded exports were 25 times the total amount of MPP funds allocated to these companies in fiscal year 1991. Companies that participated in the regional trade groups' branded programs have introduced and promoted over 140 different products in more than 80 export markets.

-- Exports of California walnuts have expanded by 41 percent since 1986/87, the first year of promotions under MPP/TEA. The California Walnut Commission links this increase in exports to the maintenance of grower prices even in the face of a 29-percent increase in supplies.

-- MPP/TEA activities were instrumental in laying the groundwork for liberalization of Japan's beef market. In the beginning and while trade negotiations were underway, promotional efforts in Japan were intensely focused on educating consumers about the negative aspects of their government's meat import policies.

Since the opening of the Japanese market, MPP-supported promotions have shifted focus from the quota issue to differentiating U.S. grain-fed beef from Australian grass-fed beef. Major efforts are also under way to show consumers the many ways to use high-quality U.S. beef. U.S. beef exports to Japan were valued at $1.1 billion in 1992 compared with $0.4 billion in 1985. In addition, there are now 15 U.S. meat exporters with offices in Japan.

Intergovernmental Coordination

I would like to comment briefly on how FAS coordinates its export promotion efforts with the export promotion programs of other Federal agencies.

In the past, this coordination has taken place at the working level, particularly in the field, and, since 1990, through the Trade Promotion Coordination Committee (TPCC). The TPCC, which was organized and is led by the Department of Commerce, has proven a useful mechanism for explaining FAS programs to other agencies, and for keeping FAS staff abreast of programs and resources at other agencies. At the working level, the TPCC's subcommittees have been helpful in facilitating communication among staff working in specific program or geographic areas, such as export financing or the former Soviet Union. USDA is on record as favoring improved coordination of the United States' export mission.

Conclusion

In concluding my testimony today, I'd like to stress one major accomplishment of the MPP which is frequently overlooked -- and that is what it has done in motivating U.S. interest in the export market and in trade issues. For most agricultural commodities and most products, we have arrived at the point where the export market is no longer looked upon as a place to divert temporary excess supplies, but as a real market for development. Hamburg,

Tokyo, Milan, Athens and other international commercial centers are becoming as familiar to growers and process as New York, Chicago, and San Francisco.

The MPP has played a crucial role in this process by assisting firms, many of which might otherwise not have participated in exporting, to meet the highly specialized demands of consumers in many different lands overseas.

However, U.S. farmers and exporters still face a "tough sell" in the international marketplace. In a world of increasing competitiveness and, sadly, rampant protectionism, the MPP has proven itself to be a versatile tool available to U.S. agriculture in building new markets. In particular, MPP has helped U.S. farmers and exporters position themselves to take advantage of market opportunities in the most vibrant sector of world agricultural trade, high-value products.

Thank you, Mr. Chairman, for this opportunity to lay out some of the facts about the MPP. At this point I will be happy to answer any questions that you or the other subcommittee members might have.

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United States General Accounting Office

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Testimony

Before the Subcommittee on Economic Policy, Trade and Environment, Committee on Foreign Affairs, House of Representatives

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U.S. DEPARTMENT OF AGRICULTURE

Improvements Needed in Market Promotion Program

Statement of Allan I. Mendelowitz, Director
Financial Institutions and International Trade
General Government Division

GAO/T-GGD-93-17

U.S. DEPARTMENT OF AGRICULTURE: IMPROVEMENTS NEEDED IN THE MARKET PROMOTION PROGRAM

SUMMARY STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR
FINANCIAL INSTITUTIONS AND INTERNATIONAL TRADE
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The Market Promotion Program (MPP) was created to encourage exports of U.S. agricultural products. It focuses primarily on high-value products such as fruits, nuts, and processed products and gives priority to products adversely affected by unfair foreign trade practices. From fiscal year 1986 through fiscal year 1993, over $1.25 billion has been authorized for MPP and its predecessor, the Targeted Export Assistance program.

MPP operates through about 65 not-for-profit associations that either run market promotion programs themselves or pass the funds along to private sector companies to spend on their own market promotion efforts. About 60 percent of all program activities involve generic promotions, with the remaining 40 percent spent for "branded" (brand-name) promotions.

GAO believes that there are problems in the operation of the program. The MPP's goals of encouraging the development, maintenance, and expansion of agricultural exports are broad enough to justify program support under any market situation. The Foreign Agricultural Service (FAS), which administers MPP, uses a number of factors to allocate MPP funds among the various eligible applicants. However, GAO believes that the current funding process for MPP does not address a number of important factors.

-- FAS currently has no way of assuring that money provided under the program is supporting additional promotional activities rather than simply replacing funds that would have been spent anyway.

-- FAS lacks criteria regarding the length of time participants can remain in the program or the circumstances under which beneficiaries should graduate from the program.

-- FAS has not focused on the issue of the participation of foreign companies, and the desired distribution of program funds to firms of various sizes.

-- FAS lacks the data to fully apply its own criteria for allocating program funds.

FAS is currently evaluating MPP in response to a directive from Congress. However, methodological obstacles make it very difficult to establish a causal link between MPP activities and increased exports.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Department of Agriculture's Market Promotion Program (MPP). From fiscal year 1986 through fiscal year 1993, over $1.25 billion has been authorized for MPP and its predecessor, the Targeted Export Assistance (TEA) program. I will address the historical development of the program and its management and operations. I will also highlight several important program-related issues that need to be addressed by Congress and the Department of Agriculture to improve the program.

BACKGROUND

In 1985, to reverse the decline in U.S. agricultural exports and to counter the negative effects on U.S. exports of unfair foreign trade practices, the Food Security Act (P.L. 99-198) authorized the TEA program. The TEA program provided funds to support market development activities for commodities adversely affected by unfair foreign trade practices.

In 1990, the TEA program was replaced by MPP, which was authorized by the Food, Agriculture, Conservation and Trade Act of 1990 (P.L. 101-624). MPP is administered by the Department of Agriculture's Foreign Agricultural Service (FAS). MPP helps finance overseas promotional activities for U.S. agricultural products. MPP, like its predecessor, was created to develop, maintain, and expand U.S.

agricultural exports. However, MPP gives priority to, but unlike the TEA program does not limit participation to, commodities adversely affected by unfair foreign trade practices.

Eighty percent of MPP funds are used to promote high-value agricultural products (HVP), which constitute an increasing portion of world agricultural trade.[1] High-value products have increased as a percentage of world agricultural exports from 66 percent in 1962 to 75 percent in 1990. In 1990, the United States exported $25 billion in high-value agricultural products, as compared to the European Community (EC) countries, which exported $37 billion (excluding intra-EC trade).

MPP provides funding primarily for consumer-related promotions of high-value generic and brand-name products. Generic activities involve the efforts of not-for-profit organizations to increase the total market for their commodities with no emphasis on a particular brand. Brand-name activities help private firms establish consumer loyalty to a particular brand.

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[1]High-value agricultural products include a wide variety of items, most of which have value added to their original state through specialized handling, transportation, marketing, processing, or packaging. HVPs are generally classified into three groups: semi-processed products (e.g. flour, oilseed meal, and animal fats); highly processed consumer-oriented products (e.g., processed meats and dairy products); and high-value unprocessed consumer-oriented products (e.g, fresh fruit, eggs, and nuts). Bulk commodities, which are raw agricultural products, have little value added after they leave the farm gate besides relatively uncomplicated transportation and handling costs. Some typical bulk commodities are wheat, corn, rice, oilseeds, raw tobacco, and raw cotton.

MPP operates through about 65 not-for-profit associations that either run market promotion programs themselves or pass the funds along to private sector companies to spend on their own market promotion efforts. When associations pass funds along to private corporations, it is the associations, operating under interim program regulations, that determine which companies receive funds and how much they receive. About 60 percent of all program activities now support generic promotions, with the remaining 40 percent funding "branded" (brand-name) promotions. The majority of MPP funds are spent on promotions in Western Europe, Japan, and Pacific Rim countries.

MPP now operates on a cost-sharing basis with its participants. Under the current MPP interim regulations, participants must contribute a minimum of 5 percent of their own resources for generic promotions; previously, they were encouraged, but not required, to contribute. For brand-name activities, private firms are generally reimbursed not more than 50 percent of their eligible expenses.[2]

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[2]Private firms could receive more than 50-percent reimbursement if (1) the commodity being promoted had a favorable decision by the U.S. Trade Representative under Section 301 of the 1974 Trade Act and the U.S. Trade Representative has not terminated action taken as a result of such favorable decision; and (2) the commercial entity was reimbursed at more than 50 percent for eligible expenses under the TEA program during fiscal year 1990 with the reimbursement rate being phased down, beginning with fiscal year 1991, to a level of 50 percent by fiscal year 1995.

Funding History

The Food Security Improvements Act of 1986 authorized annual funding for MPP at a minimum level of $110 million for fiscal years 1986 through 1988 and $325 million for 1989 and 1990. Our May 1988 report on the program identified a number of management weaknesses and expressed concern that an increase in funding for the program from $110 million to $325 million for fiscal years 1989 and 1990 would exacerbate existing management problems. The House and Senate Appropriations Committees reduced authorized funding to $200 million annually for fiscal years 1989 and 1990. Fiscal years 1991 and 1992 MPP allocations were also $200 million. Due to continued concerns about the operation of the program, Congress reduced fiscal year 1993 funding to $147.7 million.

The amount of promotional funds provided to individual participants has been substantial. Appendix I contains the funding provided to not-for-profit associations. Appendix II provides a listing of participants who received cumulative amounts in excess of $1 million to promote brand-name products.

CONGRESSIONAL ACTION ADDRESSING
PROGRAM ADMINISTRATION

The Food, Agriculture, Conservation and Trade Act of 1990 contained a number of provisions directed toward improving MPP

administration. Related congressional hearings indicated that Congress intended that assistance be provided on the basis of merit and on the potential for real market growth. It also intended that marketing plans and evaluation be improved.

The act detailed conditions under which assistance could be terminated, and placed specific requirements upon the Secretary of Agriculture. The Secretary of Agriculture was required to issue program regulations that specified the criteria used to evaluate and approve MPP proposals. The Secretary was also required to (1) review each MPP recipient within 15 months after the initial provision of funds to the recipient, (2) evaluate the effectiveness of the program in developing or maintaining markets for U.S. agricultural commodities, and (3) determine whether assistance is necessary to maintain such markets.

The act also placed specific administrative requirements upon program participants. Participants were required to submit marketing plans describing the activities to be carried out and containing specific market goals.

MPP INTERIM REGULATIONS

FAS published interim regulations for MPP in the August 16, 1991, Federal Register. Comments on the interim regulations were due by October 15, 1991. FAS officials told us that they were unable to

finalize the regulations due to staff resource limitations. Any further effort at this time is restricted by a freeze on the issuance of new regulations imposed by the new administration. As a result, the current MPP regulations do not incorporate any changes that might be made in response to comments received.

The interim regulations set out the following application process and criteria: FAS announces program availability in the Federal Register. Interested applicants are to respond by the deadline established in the announcement of program availability.[4] Generally, an applicant must be a not-for-profit agricultural trade association, state regional trade group, agricultural cooperative, or state agency to receive MPP program funds directly from FAS. The applicant must not stand to profit directly from specific sales of the agricultural commodity or product for which an MPP allocation is requested. FAS can enter into an agreement directly with a U.S. commercial entity when FAS determines that such an agreement would significantly contribute to developing an export market.[5] Interested parties must then submit an application containing the following information:

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[4]For fiscal year 1993, FAS announced the program availability on August 5, 1992; established October 7, 1992, as the deadline for the applications; and made the program allocations public on December 18, 1992.

[5]FAS will only enter into direct agreements with commercial entities under the MPP's Export Incentive Program (MPP/EIP). FAS criteria for MPP/ require that there be no other MPP participant interested in or capable of undertaking the promotion. MPP/ promotions are for branded products for which the commercial entity owns or has a sole agency agreement in the targeted market.

--a description of the agricultural commodity to be promoted, including the percentage of U.S. content by weight, exclusive of added water;

--the anticipated export availability of the agricultural commodity or product over the duration of the proposed agreement;

--the volume and value of U.S. exports of the agricultural commodity or product during the most recent 3 years prior for which data are available, and the source of such information;

--a description of the unfair trade practice, if any, affecting the exports of the product;

--a strategic plan that describes the overall export objectives for a commodity or product in the target market, specific market conditions/constraints affecting exports of the commodity, a general approach to overcoming the constraints, and the expected results of using MPP funds;[6]

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[6]If funds were requested for branded promotions to be performed by or through the MPP participant, the following additional information is required in the strategic plan: a description of how the branded program would be made available to U.S. and/or foreign commercial entities; a description of any differences in program operations between U.S. commercial entities and foreign commercial entities; an identification of the method to be used to announce the availability of the branded program; a description of the information solicited from the U.S. and/or foreign commercial entities applying for the branded program; the criteria used to distribute program funds to branded participants; and the criteria

--for not-for-profit organizations, a description of the organization, membership, articles of incorporation, an Internal Revenue Service tax exempt number, the identity of affiliated organizations, their export and promotion experience, their expertise in managing programs, and their staffing levels by position of U.S. personnel that will be operating the program;

--the anticipated MPP participant contribution level in dollars, the total contribution as a percent of MPP funds requested, the source of the contributions, and the amount expected from other federal or state programs similar to MPP;

--the amount of program funds requested; and

--a statement as to whether the proposal is for 1 or more years and, if for multi-years, the justification.

Application Approval Process

FAS had a three-stage application approval process for the 1992 program. In the first stage, a committee of senior marketing specialists reviewed each application to determine compliance with the requirements specified in the interim regulations. In the second stage, marketing specialists analyzed the content of each

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used to evaluate branded promotions.

proposal and prepared recommendations for the allocation level, required cost-share level, and ceiling levels by program, country, and generic versus branded activities. The marketing specialists used criteria specified in the interim regulation to arrive at their funding allocation recommendations.[7] The FAS commodity division directors then reviewed and approved the marketing specialist's allocation recommendations. In the final stage, a committee chaired by the FAS Assistant Administrator for Commodity and Marketing Programs made adjustments to the divisions' funding recommendations, because the total recommended funding allocations exceeded the funds available.

According to FAS, the committee used five factors to make the final allocations: (1) the presence of an unfair trade practice; (2) the proposed contribution (cost-share) level; (3) the proposed budget size in relation to exports; (4) the proposed budget size in

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[7]The allocation criteria included five specific factors: (1) the extent to which the prospective participant represents production of the agricultural commodity; (2) the applicant's ability to provide with its resources a U.S.-based staff capable of conducting overseas promotion projects, its willingness to otherwise contribute resources to the project, and the scope and complexity of its proposed activities in relation to the applicant's prior export experience and U.S. based staff resources; (3) the adequacy of the applicant's strategic plan in terms of its description of market conditions and its identification of constraints, its likelihood of overcoming constraints using MPP funds, and the estimated change in exports and/or market share expected as a result of overcoming the constraints; (4) for brand-name promotions, a detailed explanation of the prospects of success of the proposed activities in terms of increasing U.S. exports of the U.S. agricultural commodity or product; and (5) the adequacy of the applicant's provisions for monitoring and evaluating the activities proposed in the strategic plan.

relation to the expected change in exports; and (5) the 1991 export performance in relation to 1991 goals/forecasts. The allocation factors enter into the decision-making process in a weighted formula.

FAS officials stated that they followed a similar process for the fiscal year 1993 program funding allocations. However, they included two additional allocation factors in response to language contained in the 1993 agriculture appropriations conference report. Specifically, they added factors intended to favor products that were U.S. grown and manufactured while putting foreign branded products at a disadvantage. FAS also stated that it increased the funding of the state regional trade groups from the 1992 level in an effort to raise the participation level of small- and medium-sized firms.

MPP PROGRAM CRITERIA DO NOT ADDRESS IMPORTANT FACTORS

FAS uses a number of factors to allocate MPP funds among the various eligible applicants. However, we believe that the current funding process for MPP does not address a number of important factors. Specifically, there are no criteria addressing the "additionality" of funds expended for market promotion activities, and the graduation from MPP of program participants receiving funding. In addition, FAS needs to address the issues of the

participation of foreign versus domestic firms and large versus small firms. Lastly, FAS has only limited information regarding the extent to which products are processed in the United States, one of the criteria used in the funding decision.

Funding Additionality

The issue of whether program-funded promotional activities would have been undertaken without government assistance, which we refer to as "funding additionality," needs to be addressed. FAS currently has no way of knowing whether money provided under the program is supporting additional promotional activities or merely replacing funds that would have been spent anyway. To ensure that benefits are achieved, program funds should not replace expenditures that a company would undertake irrespective of the program.

Other federal programs, such as the research and experimentation tax credit, restrict program benefits to the incremental increases in expenditures over prior-years' amounts. The research and experimentation tax credit provides a 20-percent credit only for expenses that exceed a base-period amount. The base period is generally the average amount of the 3 prior years' expenditures. MPP lacks such a criterion.

Furthermore, applicants are not required to provide sufficient information for FAS to determine the extent to which additional program efforts are occurring. Currently, FAS does not collect information on program applicants' prior promotional expenditures in international markets. Likewise, FAS does not ask program participants to obtain prior promotional expenditure information from the commercial entities receiving MPP funds for branded promotions.

The lack of information needed to demonstrate funding additionality creates the opportunity for program participants to use taxpayer dollars to support promotional activities that would otherwise have been undertaken with private funds. For example, it is currently possible for a commercial entity that has substantial resources and export expertise to receive MPP funds to promote its branded product in a market in which it already has a promotional effort underway. The commercial entity could simply maintain its previous level of promotional efforts by using the MPP matching funds provided by the government. The commercial entity could then use the funds it saved for other purposes, such as increasing its profits or augmenting its domestic advertising.

MPP Lacks a Program Graduation Requirement

FAS does not have criteria regarding the length of time that participants can remain in the program or the conditions under

which assistance should be phased out. There were 54 brand-name participants in the program from fiscal year 1986 to 1992 that received over $1 million each in MPP funding for branded promotions. Of these 54 participants, two-thirds had received program funds for 5 or more years. For example, Sunkist Growers, which has been the largest program recipient, received $67 million over a 7-year period. E.J. Gallo Winery received $16 million over a 6-year period.

The Food, Agriculture, Conservation and Trade Act of 1990 required FAS to evaluate each MPP recipient to determine whether continued program assistance was necessary for market maintenance. However, FAS has not developed specific criteria to make the required evaluations. We believe that without specific criteria for phasing down and reallocating funds to other program participants, support may be going to those for whom government funding may no longer be needed or justified.

Foreign Firm Participation

There has been considerable discussion about foreign firm participation in MPP. FAS has allowed each of the participating organizations to develop its own criteria regarding the extent of foreign firm participation. Some participants have funded foreign companies exclusively, while other participants have funded few, if any, foreign corporations.

FAS does not provide MPP funds directly to foreign companies. The branded program is administered by the participating organizations, which in turn may choose to allow foreign firms to be beneficiaries under the program.[8] FAS only requires that the participating organization's criteria for distributing program funds among branded participants be objective and reasonably related to its worldwide promotional goals.

According to FAS representatives and the five MPP participants we spoke with, providing MPP funds to foreign companies is consistent with the program's goals and objectives. They stated that the primary goal of the program was to increase the exports of U.S. agricultural commodities. They explained that foreign companies are sometimes better situated to promote and export U.S. agricultural products in certain foreign markets because they have greater name recognition, superior distribution networks, and more market knowledge than domestic companies.

Of the 64 participating organizations receiving MPP funds between fiscal year 1986 and 1992,[9] 9 provided funds to foreign corporations. The nine MPP participants provided over $78 million to foreign corporations for the promotion of branded products

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[8]The only exceptions are the commercial entities that participate in MPP/ALL. FAS directly provides these firms with funds for branded promotions. According to FAS, all of the companies participating in MPP/ALL are U.S.-based corporations.

[9]Does not include MPP/ALL participants.

containing seafood, soybeans, raisins, walnuts, cotton, honey, peanuts, sunflower seeds, and rice. The $78 million does not include funds provided to U.S. subsidiaries of foreign corporations.

The funding of foreign firms raises the possibility that exports of U.S. firms could find themselves in competition with foreign products promoted with MPP funds. We are collecting information to determine the extent to which this situation may be a problem.

Participation Levels of Large and Small Firms

The 1993 appropriations language directed FAS to encourage the participation of smaller, medium-sized, and new-to-export firms in the program. In response, FAS attempted to raise the participation of smaller firms in the program by increasing funds provided to state regional trade groups during the 1993 funding process. In doing so, FAS was in effect relying on statements made by the state regional trade groups that about 80 percent of companies to which they provided MPP funds met the Small Business Administration's (SBA) definition of a small company.[10]

Nevertheless, FAS did not provide guidance to the program participants regarding the desired distribution of program funds to

[10]Generally, SBA defines a small business as having 500 employees or less. SBA has defined specific size standards by industry using standard industrial code designations.

firms of various sizes. In fact, FAS lacked a requirement that program participants maintain information on the size of the firms that are funded under the program.

In addition, representatives from FAS and participating organizations said that larger companies with significant export experience can often use program funds more efficiently and effectively than smaller or new-to-export firms. As a result, they felt that the participation of larger firms benefitted U.S. agricultural producers, because they could export a larger volume of agricultural products or commodities than smaller firms. Furthermore, the Wine Institute justified the program participation of E.J. Gallo, which had $1 billion in sales during 1991, by explaining that the winery purchases its grapes from hundreds of smaller grape growers. Therefore, E.J. Gallo's success in increasing exports benefits the smaller growers. While this argument may have merit, the ability of such firms to conduct market promotion activities overseas without a government subsidy may outweigh the effectiveness argument.

U.S. Content and Processing of MPP Products Not Verified

Prior to fiscal year 1993, FAS did not routinely verify the accuracy of statements made by program participants regarding the U.S. content of their agricultural products. MPP regulations permit full funding only for products that have at least 50-percent

U.S. content by weight (exclusive of added water). Products that have less than 50-percent U.S. content are eligible for proportionally less funding.

In addition, FAS does not require applicants to provide data on the extent to which their products were processed in the United States. Despite this lack of information, FAS factored the U.S. processing of products into the fiscal year 1993 funding process.

In their 1992 MPP applications, 45 trade groups administering MPP during fiscal year 1992 stated that the U.S. content was 100 percent; 12 stated that the U.S. content was at least 50 percent; and 1 stated that the U.S. content ranged from 14 to 68 percent.

FAS officials told us that they did not verify the U.S. content of branded products prior to 1993. Instead, they relied on statements made in the MPP applications. Starting in 1993, FAS' Compliance Review Staff have begun to review the support for certifications made regarding U.S. content during their audits of participants. However, FAS Compliance Review Staff typically limit their work to the participant and do not as a rule audit the commercial entities performing branded promotions. This situation severely limits the ability of the Compliance Review Staff to assess the accuracy of statements regarding the U.S. content of branded products promoted with MPP funds.

Representatives from the MPP participants we contacted told us that they relied on statements made by the commercial entities in their applications for MPP funds regarding the U.S. content of their products. They explained that they only reviewed the U.S. content of a product on an "exception" basis. For example, some of the commercial entities will request assistance from the MPP participant to determine if their product meets the minimum 50-percent U.S. content required for full funding.

FAS informed us in January 1993 that it adjusted the fiscal year 1993 MPP allocation formula to favor products that were primarily U.S. manufactured. However, neither FAS nor the trade groups have information on the extent to which branded products are manufactured or processed in the United States. FAS officials stated that they assumed the level of U.S. processing by the nature of the product and the presence or absence of foreign brands in the program.

STATUS OF FAS EVALUATION OF MPP

The 1993 agriculture appropriations conference report directed FAS to complete an evaluation of MPP and provide the results to the appropriations committees by February 1, 1993.
FAS was specifically directed to evaluate the following for each of the last 5 fiscal years: (1) the number of companies or groups

receiving MPP funds for the first time in each fiscal year compared to the number of companies or groups that received MPP funds in at least 1 of the previous 5 fiscal years; (2) the dollar value of the annual export sales of MPP participants and the percentage of the MPP participant's marketing budget represented by MPP funds; (3) the number of small business participants in MPP; (4) the question of whether MPP participants would have entered an export market regardless of the availability of MPP funds; (5) the dollar value of annual export sales directly attributable to MPP funds; and (6) the number of new applicants for MPP funds, especially small businesses, that were not funded compared to the number of companies or groups that received MPP funds in at least 1 of the previous 5 years.

FAS sent a letter to the appropriations committees on February 23, 1993, reporting on the status of its evaluation of the program. In the letter, FAS stated that it planned to conduct a survey of the program recipients because much of the information required for the evaluation was not available in FAS. An FAS official subsequently stated that the survey was being reviewed by the Office of Management and Budget for compliance with the Paperwork Reduction Act. Once the survey is sent and data obtained, FAS intends to provide an evaluation summary to the appropriations committees on its findings and possible program recommendations.

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We would like to enter a final note of caution regarding what can reasonably be expected from this evaluation. FAS and MPP participants continue to cite increased exports as evidence of program success. We believe the large number of variables that determine exports makes it extremely difficult to demonstrate a direct relationship between program-funded promotion activities and increased exports. Exports depend on a number of factors, and it is very difficult to separate out the importance of each individual factor. Factors that influence export sales include relative price differences, foreign exchange rate fluctuations, competitor practices, trends in domestic commodity production, changes in gross national product, changes in consumer preferences, and changes in government policies. In light of the methodological difficulties in demonstrating export additionality, FAS should exercise caution in asserting export increases as a result of MPP.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions that you or the Subcommittee may have.

TOTAL FUNDS RECEIVED BY MARKET PROMOTION PROGRAM PARTICIPANTS, FISCAL YEARS 1986-93

PARTICIPANT ORGAN.	COMMODITY	Amount Approved for each FY $s (1) FY86 IEA	FY87 IEA	FY88 IEA	FY89 IEA	FY90 IEA	FY91 MPP	FY92 MPP	FY93 MPP	TOTAL
Alaska Seafood Marketing Institute	Salmon Crab		$1,500,000	$1,950,000	$8,000,000	$4,800,000	$6,780,000	$8,520,000	$6,960,000	$38,210,000
Almond Board of California	Almonds								$3,230,000	$3,230,000
American Horticultural Marketing Council	Live Plants							$148,000		$148,000
American Indian Trade and Development Council	Sea Seafood, Forest Prod.							$228,000	$75,000	$303,000
American Plywood Association	Plywood	$1,050,000	$1,000,000	$1,200,000	$3,700,000	$8,500,000	$8,000,000			$23,920,000
American Seed Trade Association	Seeds		$350,000							$350,000
American Sheep Industry Association	Wool & Breeding Sheep				$100,000	$148,000		$240,000	$240,000	$748,000
American Soybean Association	Soybeans	$8,800,000		$9,900,000	$11,650,000	$11,500,000	$10,130,000	$5,040,000	$3,300,000	$85,720,000
Asparagus	Fresh, Frozen and Processed							$210,000	$340,000	$538,000
Brandy Export Association	Fruit brandy and grappa							$1,070,000	$830,000	$1,900,000
California Avocado Commission	Avocados		$420,000	$450,000	$650,000		$1,030,000	$332,000	$440,000	$3,322,000
Calif. Cling Peach Advisory Board	Canned Peaches Pears, and Fruit Cocktails	$2,500,000	$8,600,000	$8,700,000	$4,700,000	$3,500,000	$3,020,000	$2,350,000	$1,920,000	$29,690,000
Calif. Kiwifruit Commission	Kiwifruit		$600,000	$500,000	$1,900,000	$800,000	$830,000	$659,000	$480,000	$4,878,000
Calif. Pistachio Commission	Pistachios	$200,000	$200,000		$500,000	$780,000	$1,030,000	$1,210,000	$1,310,000	$5,200,000
California Prune Board	Prunes	$4,000,000	$4,500,000	$5,500,000	$5,900,000	$7,500,000	$7,030,000	$7,520,000	$4,950,000	$46,900,000
California Raisin Advisory Board	Raisins	$8,300,000	$8,900,000	$8,100,000	$10,700,000	$12,500,000	$8,920,000	$8,410,000	$4,130,000	$70,180,000
California Strawberry Advisory Board	Strawberries					$500,000	$870,000	$630,000	$370,000	$2,470,000
California Table Grape Commission	Table Grapes	$350,000	$450,000	$750,000	$1,950,000	$2,300,000	$3,250,000	$2,990,000	$2,550,000	$14,390,000

APPENDIX 1

PARTICIPANT ORGAN	COMMODITY	Amount Approved for each FY in ($ FY88 IEA	FY87 IEA	FY88 IEA	FY89 IEA	FY90 IEA	FY91 MPP	FY92 MPP	FY93 MPP	TOTAL
California Tomato Board	Fresh Tomatoes								$140,000	$140,000
California Tree Fruit Agreement	Plums, Pears Nectarines, Prunes & Peaches					$500,000	$1,000,000	$1,210,000	$340,000	$3,050,000
California Walnut Commission (formerly Walnut Marketing Board)	Walnuts	$8,000,000	$7,000,000	$8,500,000	$7,300,000	$8,000,000	$8,070,000	$8,710,000	$4,780,000	$57,380,000
Catfish Farmers of America	Catfish			$50,000	$150,000					$200,000
Catfish Institute	Catfish								$210,000	$210,000
Cherry Marketing Institute, Inc.	Red Tart Cherries				$500,000	$400,000	$450,000	$844,000	$380,000	$2,374,000
Chocolate Manufacturers Association	Chocolate and Confectionery Products	$2,500,000		$2,500,000	$3,000,000	$900,000	$1,550,000	$2,110,000	$2,570,000	$15,130,000
Concord Grape Association	Grapes				$1,500,000	$700,000				$2,200,000
Cotton Council International	Cotton	$7,000,000	$8,800,000	$11,450,000	$15,000,000	$15,000,000	$10,400,000	$15,780,000	$10,340,000	$90,180,000
Eastern U.S. Agric & Food Export Council	High Value Food & Ag Prod	$1,098,284	$1,000,000	$1,100,000	$2,100,000	$2,850,000		$1,430,000	$4,200,000	$13,878,284
Florida Department of Citrus	Citrus	$4,800,000	$7,000,000	$7,000,000	$5,400,000	$8,900,000	$5,330,000	$8,870,000	$7,170,000	$55,270,000
Ginseng Board of Wisconsin, Inc.	Ginseng Root						$150,000	$350,000	$310,000	$824,000
Hop Growers of America	Hops					$50,000	$172,000	$198,000	$170,000	$591,000
International Apple Institute	Fresh Apples								$910,000	$910,000
Kentucky Distillers' Association	Bourbon Whiskey					$2,000,000	$3,100,000	$3,700,000	$3,470,000	$12,380,000
Lentil Growers of America	Lentils		$1,500,000	$1,600,000	$1,640,000					$4,740,000
Michigan Apple Commission	Fresh eating apples							$200,000		$200,000
Mid-America Grain Agri-Trade Council	High Value Food & Ag Prod	$800,000	$1,200,000	$1,100,000	$1,800,000	$2,700,000	$5,170,000	$4,250,000	$4,420,000	$21,540,000

PARTICIPANT ORGAN	COMMODITY	Amount Approved this sect FY 88 ($) FY88 IEA	FY87 IEA	FY88 IEA	FY89 IEA	FY90 IEA	FY91 MPP	FY92 MPP	FY93 MPP	TOTAL
Mohair Council of America	Mohair								$110,000	$110,000
Nat Association of Animal Breeders	Bovine Semen				$400,000	$402,000	$208,000	$794,000	$280,000	$1,884,000
Nat Assoc of State Depart of Agriculture	High Value Food & Ag Prod	$500,000			$100,000	$750,000		$538,000	$360,000	$2,248,000
Nat Council of Farmer Cooperatives	Ag Products			$350,000	$300,000					$650,000
National Dairy Research and Promotion Board	Dairy Products								$280,000	$280,000
Nat Dry Bean Council	Dry Beans			$800,000	$1,000,000		$520,000	$310,000	$1,000,000	$3,630,000
Nat Forest Products Association	Wood Products				$8,150,000	$7,400,000	$5,424,000	$14,880,000		$35,854,000
National Hay Association	Hay & Alfalfa Products		$300,000							$300,000
National Honey Board	Honey				$500,000	$1,000,000	$520,000	$81,000	$200,000	$2,301,000
National Pork Association	Pork	$2,100,000								$2,100,000
National Peanut Council	Peanuts	$4,600,000	$6,500,000	$1,500,000	$7,400,000	$6,510,000	$6,020,000	$1,100,000	$2,800,000	$30,800,000
National Potato Promotion Board	Potatoes	$2,000,000	$2,050,000	$2,400,000	$4,700,000	$4,800,000	$3,030,000	$5,800,000	$2,870,000	$29,650,000
National Renderers Association	Edible and Inedible Tallow								$180,000	$180,000
National Sunflower Association	Sunflower Seed Oil and Confectionary Sunflower		$3,010,000		$2,400,000	$4,000,000	$1,560,000	$870,000	$1,820,000	$13,459,000
New York Wine and Grape Foundation	Wine								$110,000	$110,000
North American Export Grain Association	Grains, Oilseeds							$380,000	$400,000	$780,000
Northwest Hardwood Council (Peeler)	Fresh Peeler	$100,000	$400,000	$500,000	$600,000	$900,000	$900,000	$1,020,000	$2,100,000	$6,520,000
Northwest Hardwood Council (Veneer)	Fresh Sawn Veneer		$120,000	$450,000	$800,000	$1,000,000	$1,200,000	$1,040,000	$520,000	$5,130,000

APPENDIX I

APPENDIX I

APPENDIX I

PARTICIPANT ORGAN	COMMODITY	Annual Agricultural activity in ($) FY88 IEA	FY87 IEA	FY86 IEA	FY88 IEA	FY89 IEA	FY91 MTP	FY92 MTP	FY93 MTP	TOTAL
Northwest Wine Promotion Coalition	Wine								$340,000	$340,000
Oregon Seed Council	Grass seed							$187,000	$85,000	$272,000
Pacific Coast Canned Pear Service, Inc. (I)	Canned & frozen Bartlett Pears						$208,000	$126,000		$333,000
Petfood Institute	Pet foods								$830,000	$830,000
Popcorn Institute	Popcorn							$187,000	$500,000	$687,000
Smithfield Ham Association	High Value Food & Ag Prod	$800,000	$800,000	$1,100,000	$1,800,000	$2,700,000	$2,880,000	$1,340,000	$4,840,000	$16,370,000
Southeast Salmon Association	Canned, Spfd							$205,000	$140,000	$345,000
Texas Produce Export Association	Grapefruit					$150,000				$150,000
Tobacco Associates	Tobacco		$800,000	$400,000	$2,150,000	$5,000,000		$3,480,000		$12,340,000
USA Dry Pea & Lentil Council	Peas & Lentils	$2,500,000	$2,800,000	$1,000,000	$1,000,000			$1,180,000	$420,000	$10,500,000
USA Poultry and Egg Export Council	Poultry and Eggs	$8,000,000	$8,000,000	$1,200,000	$8,000,000	$8,000,000	$1,080,000	$7,010,000	$7,100,000	$48,390,000
USA Rice Council	Rice	$3,840,000	$3,900,000	$4,800,000	$3,700,000	$8,300,000	$3,200,000	$3,390,000	$4,880,000	$41,170,000
USA Dairy Exports Council	Dairy Breeding Cattle								$150,000	$150,000
U.S. Feed Grains Council	Corn, Sorghum & Barley	$11,100,000	$2,800,000	$2,400,000	$4,200,000	$8,000,000		$4,780,000	$1,120,000	$72,400,000
U.S. Meat Export Federation	Red Meat	$1,000,000	$1,000,000	$4,500,000	$17,000,000	$8,000,000	$13,920,000	$12,850,000	$10,370,000	$81,440,000
U.S. Wheat Export Development Council	Wheat Pulse				$2,800,000	$1,900,000	$2,300,000	$2,300,000	$1,100,000	$9,700,000
U.S. Rice Commission	Rice								$110,000	$110,000
U.S. Wheat Associates	Wheat	$1,100,000	$2,100,000	$1,200,000	$6,800,000	$3,200,000		$4,350,000	$3,010,000	$24,800,000
Vinifera Growers of Alaska	Vodka								$240,000	$240,000

PARTICIPANT ORGANI	COMMODITY	Annual Approved Funding each FY $ (S) FY96 IEA	FY97 IEA	FY98 IEA	FY99 IEA	FY00 IEA	FY01 MTP	FY02 MTP	FY03 MTP	TOTAL
Washington State Apple Commission	Fresh Apples	$1,400,000	$1,500,000	$2,000,000	$2,650,000	$3,660,000	$4,340,000	$4,410,000	$3,910,000	$24,210,000
Western U S Agric. Trade Association	High Value Food & Ag Prod	$2,200,000	$1,850,000	$1,800,000	$4,300,000	$5,250,000	$8,000,000	$8,710,000	$8,370,000	$32,380,000
Wild Blueberry Assoc. of North America	Frozen and Canned Wild Blueberries							$20,000	$44,000	$70,000
Wine Institute	Wines	$4,800,000	$2,800,000	$3,000,000	$7,000,000	$9,000,000	$15,000,000	$14,310,000	$11,980,000	$67,390,000
TOTAL		$100,000,284	$93,020,000	$80,000,000	$170,750,000	$160,650,000	$170,200,000	$160,480,000	$140,174,000	$1,132,810,284
Almonds (EIP)	Almonds	$800,000	$4,100,000	$8,800,000	$11,000,000	$8,000,000	$8,200,000	$4,140,000		$44,800,000
CA/AZ Citrus (EIP)	Citrus	$8,600,000	$10,500,000	$10,500,000	$11,200,000	$8,600,000	$13,710,000	$9,200,000	$4,730,000	$77,140,000
Canned Grapes Products (EIP)	Grapes						$1,400,000	$1,020,000		$2,420,000
Dates & Products thereof (EIP)	Dates						$320,000			$320,000
Cranberries, Tests & Bases (EIP)	Cranberries						$1,000,000	$784,000		$1,784,000
Milk (EIP)	Milk Pwds		$1,600,000	$700,000						$2,300,000
Processed Corn (EIP)	Corn			$1,600,000	$1,250,000	$1,250,000	$3,230,000	$2,790,000	$1,020,000	$11,010,000
Processed Tomato Products (EIP)	Tomatoes						$800,000	$800,000	$210,000	$1,410,000
EIP SUBTOTAL		$9,400,000	$18,100,000	$19,200,000	$24,200,000	$18,050,000	$28,740,000	$18,940,000	$6,660,000	$141,920,000
Reserved by CCC for Evaluation Projects							$1,000,000	$1,000,000	$1,000,000	$3,000,000
IEA/MTP GRAND TOTAL		$109,000,284	$110,000,000	$110,000,000	$210,000,000	$200,000,000	$200,000,000	$200,000,000	$147,734,000	$1,277,730,284

(1) Pacific Coast Canned Pear Service Merged With California Cling Peach Advisory Board in FY 1993

Source: FAS

APPENDIX 1

APPENDIX II

APPENDIX II

MARKET PROMOTION PROGRAM BRAND-NAME PARTICIPANTS RECEIVING MORE THAN $1 MILLION, FISCAL YEARS 1986-92

Participant	Total funds
Sunkist Growers	$ 66,894,052
Blue Diamond	35,744,713
Sunsweet Growers	19,142,000
E. J. Gallo	15,955,400
Sun-Maid	11,984,362
Tyson's Foods, Inc.	9,960,874
The Pillsbury Company	9,293,503
Dole Fresh Fruit Co.	8,152,705
Dole Dried Fruit/Dole Nut Co.	6,899,195
Borges	6,412,430
Welch's	5,066,209
Mariani Packing/Mariani Nut Co.	4,047,708
American Legend	3,910,998
M&M/Mars	3,781,523
Diamond	3,336,346
Hudson's Bay	3,238,863
Master Foods (Uncle Ben's)	2,812,140
Rockingham/Wampler-Longrace	2,715,000
Vintners International	2,639,400
Brown-Forman	2,425,000
Joseph E. Seagram	2,337,768
KP	2,317,500
John West Foods	2,307,100
Wrangler, Japan	2,225,254
CPC/Best Foods	2,154,500
Bruce Foods	2,059,590

APPENDIX II

Duyvis (Sara Lee)	2,025,000
Hansa-Pacific Association	2,005,400
Fruit of the Loom	1,931,210
Jim Beam Brands	1,865,000
Ocean Spray	1,826,850
National Raisin Co.	1,773,393
Heublein	1,746,390
Mayfair Packing	1,737,122
Bobson	1,673,801
Gunze	1,635,573
Campbells Soup	1,630,119
Nestle	1,603,110
Crivellaro	1,558,500
YG Urban, Japan	1,557,500
Akel Tekstill	1,537,479
Valley View Packing	1,479,000
Hershey	1,454,870
Tilda	1,420,610
Meistermarken-Werke	1,409,520
Ralston Purina	1,384,987
Euryza	1,236,478
Yuen Loong	1,195,309
McDonalds Corporation	1,185,000
Sequoia Enterprises	1,148,400
Rifle, Europe	1,078,075
California Prune Packing	1,072,000
Kraft GMBH	1,031,002
West Coast Packers	1,012,159

Source: FAS.

APPENDIX III

MARKET PROMOTION PROGRAM (MPP)-RELATED REPORTS

Transition Series: International Trade (GAO/OGC-93-11TR, Dec. 1992.

U.S. Department of Agriculture: Better Trade Show Management Can Increase Benefits to Exporters (GAO/NSIAD-92-122, Mar. 10, 1992).

International Trade: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65, Jan. 16, 1992).

Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade (GAO/RCED-91-22, Jan. 22, 1992).

Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

International Trade: Competition for Japan's High Value Agricultural Market (GAO/NSIAD-90-134, Mar. 30, 1990).

International Trade: Foreign Market Development for High Value Agricultural Trade (GAO/NSIAD-90-47, Jan. 17, 1990).

Agricultural Trade: Review of Targeted Export Assistance Program (GAO/NSIAD-88-183, May 24, 1988).

International Trade: Review of Effectiveness of FAS Cooperator Market Development Program (GAO/NSIAD-87-89, March 1987).

MPP-RELATED TESTIMONY

U.S. Department of Agriculture: Better Management Could Increase Effectiveness of FAS Export Operations (GAO-T-GGD-93-5, Feb. 23, 1993).

Export Promotion: Federal Approach Is Fragmented (GAO-T-GGD-92-68, Aug. 10, 1992).

U.S. Department of Agriculture: High-Value Products and U.S. Export Promotion Efforts (GAO-T-GGD-92-30, Apr. 7, 1992).

U.S. Department of Agriculture: Management Issues Remain Unresolved in the Market Promotion Program (GAO-T-GGD-92-25, Mar. 25, 1992).

U.S. Efforts to Increase Exports of High Value Agricultural Products (GAO-T-NSIAD-91-43, June 25, 1991).

Status Report on GAO's Reviews of the Targeted Export Assistance Program, the Export Enhancement Program, and the GSM-102/103 Export Credit Guarantee Programs (GAO-T-NSIAD-90-12, Nov. 16, 1989).

Statement by

Richard T. McGuire

President

Eastern U.S. Agricultural & Food Export Council

and

Commissioner

New York State Department of Agriculture and Markets

before the

House Subcommittee on Economic Policy, Trade and Environment

March 25, 1993

Good morning Mr. Chairman, and members of the Subcommittee.

I appreciate the opportunity to appear this morning, representing a unique group of four Participant Organizations in the Market Promotion Program (MPP), the State-Regional Trade Groups. State-Regional Trade Groups are organizations of state departments of agriculture which have joined together to share resources and develop comprehensive multi-state programs that stimulate exports from our regions. Our state marketing staffs and the individuals we employ in the State-Regional Trade Group offices work closely with the Foreign Agricultural Services (FAS), private businesses, and state and regional commodity organizations to carry out training programs, market research, trade missions, food show exhibits, and other promotions for high-value, U.S. food and agricultural

products. State-Regional Trade Groups have been developing export market opportunities in this manner for over 20 years.

We are pleased that President Clinton has expressed his strong support for expanding agricultural exports. Today, more than ever, it is critical that we develop global markets in a world economy that continues to integrate. In view of increased competition in traditional domestic markets, job retention as well as job growth in the food and agricultural industry will depend to a large extent on the ability of our business community to effectively take advantage of international market opportunities. The Market Promotion Program, which has proven its capacity to increase the sale of U.S. food and agricultural products abroad, is one very effective tool already in place to achieve this objective. The Export Council (EUSAFEC), together with its counterpart State-Regional Trade Groups in the South (SUSTA), Midwest (MIATCC), and West (WUSATA), are well positioned to help the MPP attain its fullest potential.

Programs and activities of State-Regional Trade Groups which were funded in part by the MPP in 1991, the last year for which complete statistics are available, helped to:

create 27,000 new jobs from increased export sales;

sustain 80,000 jobs which depend on continued export sales of companies participating in State-Regional Trade Group branded and generic programs;

increase federal tax revenues from increased export sales by an estimated $93 million, giving the government an 8-to-1 return on its MPP investments through State-Regional Trade Groups; and

increase total export sales of participating companies by over 50%, from $435.9 million in FY 1990 to $655.5 million in FY 1991. This $219 million of additional export sales was 25 times greater than the total amount of MPP funds allocated to these companies in FY 1991.

Additional information concerning the success of State-Regional Trade Group export programs is contained in a Fact Sheet (Exhibit A) which I have included as an exhibit with my statement, and which has been provided to the Subcommittee. It is undeniably clear that the MPP has been effective in increasing export sales of high-value, U.S. food and agricultural products, the effect of which has been to increase jobs and stimulate the economy. It is for this reason that the State-Regional Trade Groups strongly endorse the Clinton Administration's call in its economic plan for continuing the MPP at current funding levels.

We believe that our state and regional structure makes us the logical conduit to the small and medium size businesses and we will continue to work with the U.S. Department of Agriculture to improve the service to them and enhance the effective use of the MPP.

Successful exporting requires any business to hurdle numerous obstacles, fair and unfair, any one of which could cause failure and discouragement, especially to new-to-export, small and medium sized businesses which tend to possess limited resources for expansion. The State-Regional Trade Groups, with funding from the MPP and help from FAS, have conducted dozens of training seminars to help inexperienced exporters to overcome the challenges of exporting. MPP funding has helped hundreds of these companies attend trade shows, collect trade leads and generate export sales. The State-Regional Trade Groups have been particularly effective in utilizing the branded product component of the MPP to assist small and medium sized firms. I have included an exhibit with my statement which contains an impressive list of the many small and medium sized firms (Exhibit B) who applied to State-Regional Trade Groups for branded product funding in FY 1993.

An example of a success story which is typical for any of the State-Regional Groups involves one small, new-to-export company in New York State that attended an Export Council Training Seminar last May where it learned about foreign sales opportunities and took the initiative to begin exporting. A company spokesperson told the Export Council that the Mexico City trade show he learned about at the Seminar and attended last August generated enough sales to insulate the company from the U.S. recession, thereby preventing the lay-off of ten employees. The company is projecting first year sales of its products in Mexico to be $750,000. The Mexico City

trade show was initiated, sponsored and managed by the four State-Regional Trade Groups and FAS, with financial assistance from the MPP.

By and large, we believe FAS is doing a good job in administering the MPP. While there have been problems in the past, FAS has addressed most of the significant ones. Indeed, our own Export Council made some mistakes several years ago in administering our MPP/TEA program. Those problems have been remedied, we have arrangements in place to prevent their reoccurrence, and we passed our FAS compliance review last year with flying colors.

While the State-Regional Trade Groups have realized many successes, we readily acknowledge that the MPP, like many programs, can be refined and improved. Economic conditions both here and abroad are continually changing. New and developing export opportunities can surface at any time. Increased levels of production, changing consumer demands and the application of new technologies can all present new challenges to our export capabilities. Our State-Regional Trade Groups will continue to pursue a dialogue with Secretary Espy and FAS officials to improve the MPP so it can help more companies who have the potential of moving agricultural products into the world market to do so.

I recognize and share the concerns of the Administration and the Congress for changing the MPP to target companies in greatest need of assistance. In considering further changes to the Program, I

suggest that all involved consider how new program requirements would affect the capacity of U.S. companies to succeed in the highly competitive international marketplace. While the U.S. is currently enjoying significant growth in high-value food and agricultural exports due in part to the MPP, it has major worldwide competition from member states of the European Community (E.C.) and other countries. The sales volume of E.C. high-value product exports to worldwide destinations is still greater than that of the United States and it is growing. Governments in E.C. countries are extremely aggressive in promoting their high-value food and agricultural products throughout the world, and are very generous in helping their businesses to develop customers in foreign countries. We cannot make similar budget commitments. However, the combined expertise of the FAS, the extensive staff efforts in the states, and the continued funding of the MPP will greatly level the playing field.

In conclusion, I want to re-emphasize the strong support of the State-Regional Trade Groups for the MPP and the beneficial results it has yielded for food and agricultural businesses in each of our regions. I thank you for your interest in receiving the views of the Export Council and the State-Regional Trade Groups on this important topic and for the opportunity to meet with you this morning. I will be pleased to answer any questions that you may have either here this morning or anytime it may be convenient.

STATE REGIONAL TRADE GROUPS

FIRMS IN MARKET PROMOTION PROGRAM (MPP) EXPAND EXPORTS AND CREATE JOBS

November 1992

Western United State Agricultural Trade Association (WUSATA)
Mid-America International Agri-Trade Council (MIATCO)
Southern United States Trade Association (SUSTA)
Eastern U.S. Agricultural Food Export Council, Inc. (EUSAFEC)

State Regional Trade Groups (SRTGs) are private, non-profit international trade development organizations which combine federal, state, and industry resources for export market development. SRTGs cooperate to utilize human and financial resources of state departments of agriculture with program and financial resources of USDA's Foreign Agricultural Service (FAS) to expand exports of U.S. high value agricultural products and to educate and assist companies in developing export markets.

WUSATA
J. YOUDE, EXEC. DIR.
13101 NE HWY 99
VANCOUVER, WA 98686
TEL. 206-574-3927
FAX. 206-574-7083

MIATCO
D. MATTERS, EXEC. DIR.
600 W. 6TH ST. STE 1100
CHICAGO, IL 60610
TEL. 312-944-3030
FAX. 312-944-7344

SUSTA
E. HANGER, EXEC. DIR.
NTC, SUITE 1640
NEW ORLEANS, LA 70130
TEL. 504-568-5986
FAX. 504-568-6010

EUSAFEC
R. GASKILL, EXEC. DIR.
214 SCHUYLER AVE., STE 100
CAMPBELL, PA 17011-2208
TEL. 717-731-4017
FAX. 717-731-4018

MPP PROGRAMS INCREASE EXPORTS

Companies participating in the SRTG FY 91 Branded and Generic programs exported $1.28 billion worth of high value agricultural products.

The SRTG Branded programs increased export sales by over 50%, from $435.9 million in FY 90 to $655.5 million in FY 91. The $219 million in additional Branded exports were 25 times the total amount of Market Promotion Program (MPP) funds allocated to these companies in FY 91.

Companies in the SRTG Branded programs have introduced and promoted over 140 different products in more than 80 export markets.

JOBS ARE MAINTAINED AND DEVELOPED

More than 80,000 jobs depend on the export sales generated by the companies participating in the SRTG Branded and Generic programs.

The increased exports of firms participating in the SRTG Branded and Generic programs in 1991 created 27,000 new jobs in both rural and urban areas.

EXPANDED FEDERAL TAX REVENUES

The increases in exports in FY 91 expanded Federal tax revenues by an estimated $93 million, giving the government an 8-to-1 return on its MPP investments through the SRTGs.

BROAD PARTICIPATION AND SUPPORT

The number of companies participating in the Branded programs has risen from 78 companies in 1987 to 269 companies in 1992. More than 370 companies have applied to participate in the 1993 SRTG Branded programs.

Most of the companies are small. Based on their number of employees, 79% of the firms would be defined as "small" (less than 500 employees) by the Small Business Administration. Based on total sales, 66% are small (under $10 million in annual sales), 21% are medium sized, and only 13% are large (more than $100 million in annual sales).

The average 1991 expenditure by individual companies under the SRTG Branded programs was $37,000. To make the program available to as many applicants as possible, each SRTG places a limit on the amount of MPP resources it allocates to individual companies. In 1992 no firm received more than $193,000.

The SRTGs contributed $3.4 million in FY 91 to carry out their MPP programs. This represents a substantial contribution above and beyond the minimum CCC requirements. In addition, Branded companies spent more than $8.6 million in matching funds during FY 91.

SRTGs EMPHASIZE "TEAMWORK" IN THEIR EXPORT PROGRAMS

The SRTGs held 36 export education seminars in 44 states in 1992. The seminars were attended by more than 1,000 individuals, 859 were from private companies.

The SRTGs jointly designed and managed their second year of annual shows in Mexico City and Toronto. The U.S. FOOD FESTIVAL in Mexico City was host to over 150 U.S. companies, while SHOWCASE U.S.A. in Toronto hosted over 60 U.S. companies.

SMALL AND MEDIUM-SIZED FIRMS IN THE SRTG MARKET PROMOTION PROGRAM (MPP)

State	FY 1993 MPP Applicants
Alabama	Southern Pride Catfish
Arizona	Black Mountain Brewing Co.
Arizona	Country Estate Pecan/Santa Cruz Valley Pecan Co.
Arizona	DePrez Enterprises, Inc.
Arizona	La Corona Foods, Inc
California	Adrienne's Gourmet Foods
California	Avoset International, Inc.
California	Basic American Foods
California	Basic Vegetable Products
California	Best Foods Exports
California	Bette's Ocean View Diner Products
California	B-G Lobster & Shrimp Corporation
California	Boboli International, Inc.
California	California Choice
California	California Wine Country Enterprises
California	Casa de Fruta of California
California	Cha-Cha-Cha
California	Christooner Ranch
California	Earthrise Trading Company, Inc
California	Fresh Western Marketing, Inc.
California	Gallo (Joseph) Cheese Co.
California	Garden of Eatin', Inc.
California	Genuardi Farms
California	Giurlani USA
California	Golden Bear Beverage Company
California	Golden Specialty Foods, Inc
California	Gold's Gym Enterprises, Inc
California	Hansa-Pacific Associates, Inc.
California	International Food Concepts, Inc
California	Kasmi Company
California	Knudsen & Sons, Inc.
California	Lawrence (E.M.) and Company
California	Lindsay International Inc.
California	M & R Company
California	Mayfair Packing Company
California	Murrah Sales, Inc.
California	Nissin Foods (USA) Co., Inc
California	Pepperhouse International
California	Rich Products Corporation
California	Rio Farms Marketing, Inc
California	Shoei Foods (USA), Inc
California	Super Stores Industries
California	Traditional Medicinals
California	Well-Pict Berries, Inc.
California	Wild Rice Exchange
California	Yasutomo & Co.

State	FY 1993 MPP Applicants
Colorado	Columbine Beverage Company
Colorado	Duffy Products Company
Colorado	Great Western Tortilla Company
Colorado	White Wave Inc
Delaware	Draper King Cole, Inc.
Florida	Flayco
Florida	Florida European Export-Import Co
Florida	Galaxy Foods
Florida	Garden Herbs, Inc.
Florida	Gold Coast Affiliates
Florida	Grand Products International, Inc
Florida	J. R. Brooks & Son, Inc.
Florida	Pulgini Pasta Products
Georgia	American Tanning and Leather
Georgia	Chihade International
Georgia	Edwards Baking Company
Georgia	Frank W. Cawood & Assoc
Georgia	Seckinger-Lee Company
Georgia	Sweet Onions International Ltd., Jr
Guam	Birdie Corp.
Hawaii	Hawaiian Sun Products, Inc.
Hawaii	Mac Farms of Hawaii
Hawaii	Mauna Loa Macadamia Nut Company
Idaho	Gering & Son
Idaho	Litehouse, Inc
Idaho	Ste. Chapelle, Inc.
Idaho	Symms Fruit Ranch, Inc.
Illinois	A. J. Canfield Beverage Company
Illinois	Bunge Foods
Illinois	Colorado International
Illinois	Country Bob, Inc
Illinois	Indiana Foods
Illinois	La Preferida
Illinois	Little Lady Foods, Inc
Illinois	Mama Tish's
Illinois	Mardo Inc.
Illinois	Reimann Food Classics Inc
Illinois	Rubschlager Baking Corp
Illinois	Sahagian & Associates, Inc
Illinois	The Suter Company, Inc
Illinois	TKI Foods, Inc
Illinois	Upper Crust International
Illinois	Vienna Sausage Mfg. Co
Indiana	Kidd & Company
Indiana	Ramsey Popcorn Co., Inc.
Indiana	RUJAC International
Indiana	Stewart Pet Products
Indiana	Weaver Popcorn Company, Inc.

SMALL AND MEDIUM-SIZED FIRMS IN THE SRTG MARKET PROMOTION PROGRAM (MPP)

State	FY 1993 MPP Applicants
Iowa	American Pop Corn Company
Iowa	Midamar
Iowa	National Oats
Kansas	B & H General Supply
Kansas	Pines International
Kentucky	Torbitt & Castleman
Louisiana	Alimentco
Louisiana	Brown's Velvet Dairy Products
Louisiana	Cargill Fishery Products
Louisiana	Chef Paul Prudhomme s Magic Seasoning Blends
Louisiana	Creole Foods Of Opelousas
Louisiana	Chrystal International
Louisiana	Crown, Inc.
Louisiana	Ecrivisse Acadienne
Louisiana	Fairco, Inc.
Louisiana	Hi Seas of Dulac, Inc.
Louisiana	Louisiana Fish Fry Products
Louisiana	Louisiana Premium Seafood
Louisiana	Mcmenny Co.
Louisiana	Noel Seafood Co., Inc.
Louisiana	Wm B. Reily & Co., Inc
Maine	Deering Ice Cream
Maine	Resource Trading Co.
Maryland	Amero Foods
Maryland	Barcelona Nut Co.
Maryland	Best Health Foods, Inc
Maryland	Chauncey's Chili Ltd.
Maryland	Chesapeake Conservations Services
Maryland	Cristie Foods, Inc
Maryland	Elk Run Vineyards
Maryland	Global Enterprises
Maryland	Hunt Cup Ltd
Maryland	Jone's Christmas Tree Plantation
Maryland	Lankford Sysco Food Systems
Maryland	Maryland Gourmet Foods
Maryland	McCutcheon's Apple Products
Maryland	Phillips Foods, Inc
Maryland	PTC International, Inc
Maryland	Purity Products
Maryland	S&S Maple Camp
Maryland	Sea watch International, Ltd.
Maryland	Wilkins-Rogers Incorporated
Massachusetts	Durkee-Mower, Inc
Massachusetts	East Coast Seafood
Massachusetts	Joseph's Pasta Co.
Massachusetts	New Morn, Inc.

State	FY 1993 MPP Applicants
Michigan	Eden Foods
Michigan	Honee Bear Canning
Michigan	Purity Foods, Inc.
Michigan	Specialty Grain Company
Minnesota	Anacon
Minnesota	Cornerstone Interrational Group
Minnesota	Food Producers International
Minnesota	Gourmet House Inc.
Minnesota	John Florhaug & Associates
Minnesota	Minnesota Edamame
Minnesota	Northland Organic Foods Corporation
Minnesota	Pampered Pets Cuisine, Ltd.
Minnesota	Productive Alternatives, Inc.
Minnesota	Sigco Sun Products
Minnesota	Stars Beverage Company
Mississippi	Country Skillet Catfish Co
Mississippi	Delta Pride International, Inc
Mississippi	Euro-Asia Group (USA)
Mississippi	New Medina Farms
Missouri	Consolidated Flavor Corporation
Missouri	Custom Industries, Inc
Missouri	Garden Complements, Inc.
Missouri	International Dehycrated Foods Inc
Missouri	Julie's Chewies Gourmet Cookies
Missouri	Lochhead Vanilla
Missouri	Petrofsky's International
Missouri	Raskas Foods, Inc
Missouri	RCX Holding, Inc
Missouri	Vess Beverages, Inc.
Montana	Montana Merchandising Inc
Montana	Montana Natural International, Inc
Nebraska	Morrison Farms
Nebraska	U S Mills, Inc
New Hampshire	Biosan Labs
New Jersey	Alpine Lace
New Jersey	Burns & Ricker
New Jersey	International American Supermarkets
New Jersey	Reese Finer Foods
New Jersey	Terri-Agri Products
New Jersey	The Estee Corp
New Jersey	Wakeforn Food Corp.
New Mexico	Blue Sky Natural Beverage Co
New Mexico	Domaine Chaurlin
New Mexico	Goetha's Gourmet Products
New Mexico	Joseph Lite Cookies
New Mexico	La Vina Winery

SMALL AND MEDIUM-SIZED FIRMS IN THE SRTG MARKET PROMOTION PROGRAM (MPP)

State	FY 1993 MPP Applicants
New Mexico	Santa Fe School of Cooking and Market
New Mexico	Sundance Chile Products, Inc.
New York	Adirondack Maple
New York	Ahava Dairies, Inc.
New York	B-G Lobster & Shrimp Corp.
New York	Calico Cottage Candies
New York	Export Trade of America
New York	Global Export Marketing
New York	Kineret Foods
New York	Meadowland Foods, Inc.
New York	Ontario International
New York	R. W. Fookies
New York	Setton International Foods
New York	Snapple Beverage Corp
New York	Suma Trading Corporation
New York	The Brooklyn Brewery
N. Carolina	Carolina Fine Snacks
N. Carolina	Fast Food Merchandisors, Inc.
N. Carolina	Lance, Inc.
N. Carolina	Simply Delicious
N. Carolina	Strategic Growth International
North Dakota	Agway, Inc
North Dakota	Baker Boy Bake Shop, Inc.
North Dakota	Dahlgren & Company, Inc.
North Dakota	Minn-Dak Growers, Ltd
North Dakota	Red River Commodities, Inc
North Dakota	SK Food
North Dakota	Sonne, Inc.
Ohio	Export Trade of America
Ohio	General Product Services Corp
Ohio	International American Supermarkets
Ohio	Rudolph Foods Company
Ohio	Vogel Popcorn Company
Ohio	Wyandot, Inc
Oklahoma	Advance Food Co.
Oklahoma	Bake Rite Foods, Inc
Oklahoma	Farm Fresh Inc
Oregon	Bridgeview Vineyard
Oregon	Chateau Benoit
Oregon	Dundee Wine Company
Oregon	Hoody Corp. and Amber Foods Div.
Oregon	Norpack Food Sales
Oregon	Oak Knoll Winery, Inc
Oregon	Poppers Supply Co
Oregon	Rex Hill Vineyards, Inc

State	FY 1993 MPP Applicants
Oregon	Steinfeld's Products Company
Oregon	Vin Northwest, Ltd
Oregon	Wholesome & Hearty Foods, Inc
Oregon	Yamhill Valley Vineyards
Oregon/WA	Wines of America, Inc
Pennsylvania	Bob Cotton Gourmet Specialties
Pennsylvania	Bongrain Cheese
Pennsylvania	Capital Pet Foods
Pennsylvania	International Agricultural Assoc
Pennsylvania	International Market Brands
Pennsylvania	JDM Commodities
Pennsylvania	Keystone Foods
Puerto Rico	Fruits International
Puerto Rico	Garrido Alto Grande Corp.
Puerto Rico	HDC Management, Inc.
Puerto Rico	Nipuspan International Corporation
Puerto Rico	Yauco Selecto, SE
Rhode Island	Galilean Seafoods
Rhode Island	Lang Naturals
Rhode Island	Providence Bay Fish Company
S. Carolina	International Industries
S. Carolina	Young Pecan Shelling, Inc
South Dakota	Capital Petfoods International
Tennessee	International Development & Export Company
Tennessee	Marketing Consulting Services
Texas	Allied Feeds, Inc
Texas	Bellinger, Assoc
Texas	Biagoni Enterprises
Texas	Brice Foods Inc /I Can't Believe Yogurt
Texas	Conroe Creosoting Co
Texas	Dairy Manufacturers
Texas	Great San Saba River Pecan Company Inc.
Texas	Hygeia Dairy Co.
Texas	John Henry's Food Products, Inc
Texas	Merico, Inc
Texas	Navarro Pecan Co.
Texas	Organotech
Texas	Pace Foods, Inc.
Texas	Richland Beverage Corp
Texas	Richter Wine Group
Texas	Seibu International
Texas	Spanish American Trading Co., Inc
Texas	Staked Plains

SMALL AND MEDIUM-SIZED FIRMS IN THE SRTG MARKET PROMOTION PROGRAM (MPP)

State	FY 1993 MPP Applicants
Utah	Cookietree Bakeries
Utah	Golden Swirl Frozen Yogurt, Inc.
Utah	Mrs. Fields Inc
Vermont	Food 2000
Vermont	Maple Grove Farms of VT
Vermont	Miquels of Stowe Away
Virginia	Business Advisory Service Corp
Virginia	Montague Farms
Virginia	National Fruit Product Co., Inc.
Virginia	Vie De France
Virginia	Virga Pizza Crust of VA, Inc
Virginia	Zeropack Co.
Washington	American Wine Trade Inc
Washington	Arbor Crest Wine Cellars
Washington	Bader Dutch Bisquit Co., Inc
Washington	Bruttles Int'l
Washington	Canterbury Cuisine
Washington	Cascade Marketing Group, Inc
Washington	Cascadian Farm Inc
Washington	Chukar Cherry Company
Washington	Columbia Winery
Washington	Hogue Cellars
Washington	Hoodsport Winery Inc
Washington	International Market Brands
Washington	Jacques Boobe and Associates, Inc
Washington	Liberty Orchards Company, Inc
Washington	Maury Island Farming Co
Washington	McDaniel Co., Eyrie, Knudsen, Rex Vineyards
Washington	Naliev's Fine Foods
Washington	Pacific Sales Ltd
Washington	Phoenix Marketing Inc
Washington	Roman Meal Company
Washington	Staton Hills Winery Company Limited
Washington	Stimson Lane Ltd.
Washington	Stockpot Soups
Washington	Tagaris Winery
Washington	Tree Top, Inc.
Wisconsin	American Ag-Tec International
Wisconsin	ANCHOR Food Products
Wisconsin	Cumberland Packing Corporation
Wisconsin	Elm Grove Dairy
Wisconsin	Hsu's Ginseng Enterprises
Wisconsin	International Market Brands
Wisconsin	Specialty Cheese Co.
Wisconsin	Sylvester Whey Products Inc.

International Business-Government Counsellors, Inc.
818 Connecticut Avenue, N.W., 12th Floor, Washington, D.C. 20006-2702

March 30, 1993

The Honorable Sam Gejdenson, Chairman
House Committee on Foreign Affairs
Subcommittee on Economic Policy, Trade and Environment
Room 703-A, O'Neill House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

On behalf of the Wine Institute, please find attached a submission regarding the Market Promotion Program in response to the hearings which were held on Thursday, March 25. We respectfully request that this submission be included in the Record.

Sincerely,

James B. Clawson

James B. Clawson

STATEMENT OF THE WINE INSTITUTE

IN SUPPORT OF
THE MARKET PROMOTION PROGRAM

FOR THE HOUSE FOREIGN AFFAIRS COMMITTEE

SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT

THURSDAY, MARCH 25, 1993

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to explain how the Market Promotion Program is crucial to our industry's export efforts.

INTRODUCTION

The Market Promotion Program, and formerly the Targeted Export Assistance program, has been instrumental in providing motivational and financial support for the U.S. wine industry to enable it to compete in foreign markets. Prior to 1986, the industry exported to only a few markets, and by far the largest market was Canada. Exports consisted predominately of inexpensive bulk wines. Export sales in 1985 were $27 million. The industry, faced with significant foreign trade barriers and the overwhelming competitive strength of the wine industries of Europe, chose to compete for greater market share in the U.S., rather than seek foreign market entry.

However, with the passage of the Wine Equity Act in 1984, and the priority given the industry in government assistance to reduce foreign trade barriers, the industry began, somewhat cautiously, to seek entry to foreign markets. The first allocation of funds through the FAS Cooperator Program was also a very cautious $200,000 in 1985. From this base, export sales of U.S. wines grew in 1992 to $174.7 million and the 1993 MPP allocation for the Wine Institute rose to $11,680,000.

IMPORTANCE OF EXPORTING

Exporting opens up markets that would not otherwise be available for U.S. wines. These export markets help increase sales as well as stabilize U.S. prices for wine grapes and wine products.

There are over 8,000 grape growers in the U.S., and about half of their harvest is used to produce wine. In 1992, growers received over $900 million for wine grapes. In California, where 90% of U.S. wine is produced, wineries purchased 88% of the 2.1 million ton wine grape crop from independent (non-winery) grape growers.

The wine industry is an important livelihood in California, a state which remains mired in a deep recession. Roughly one of every six unemployed Americans lives in California. Unemployment has been forecast at above 11% for 1993, and is projected to remain above 10% through late 1995.

The 1991 Federal excise tax increase contributed to a decline of 8% in domestic consumption of wine. It is doubtful whether domestic consumption of wine, in the short term, will show any growth. The increase in wine exports has softened the blow of the contraction in domestic consumption. Exports now account for approximately 7% of total domestic production.

NEED FOR CONTINUED SUPPORT

The wine industry needs the continued support of the MPP for two reasons. The first involves the nature and size of the competition. The second relates to the degree of progress that we have made.

a. The nature and size of our competition

The U.S. wine industry faces competition from over 40 wine producing countries, but primarily from the wine producing members of the European Community who have developed significant subsidy programs to protect local growers and encourage exports. Exports of French, German, Spanish, and Italian wines account for between 20% to 30% of their total sales. Additionally, consumption of wines in their local countries has declined as much as 30% during the past 10 years.

The budget for production and export subsidies for the EC in 1992 approached $2.5 billion. More importantly, these types of support programs have enabled those industries to develop and execute marketing and educational programs around the world for over 50 years. It is little wonder, therefore, that most of the world's wine buyers have sound knowledge and experience with European wines, but are unfamiliar with wines from California.

Regardless of any resolution of the Uruguay Round of GATT, sizeable subsidy programs will continue in Europe to support the wine growing sector and our industry will continue to play "catch-up" in developing educational and promotional programs.

b. The scope of our progress

Although our industry is proud of its progress during the past few years, we have barely established ourselves in export markets. We feel that, given the quality and competitive price of U.S. wines, we should be able to capture a much larger share of foreign markets. The following chart lists our current estimated share of the wine market in the major countries where we have achieved initial success:

COUNTRY	1992 EXPORT SALES ($thousands)	% Increase vs. 1991	Estimated Market Share
Canada	44,768	28.1%	13%
U.K.	36,978	31.4%	3.1%
Japan	25,308	0.2%	6.2%
Mexico	6,215	49.3%	19.4%*
Germany	5,966	51.2%	0.1%
Denmark	4,908	20.0%	2.9%
Netherlands	4,591	(7.4)%	1.2%
Belgium	4,468	28.6%	0.8%

* Includes wine coolers. U.S. wines have only 2.2% of the table wine market.

EXPORTING WITHOUT THE MPP

Although export markets currently present opportunities for many U.S. wineries, it is likely that many of these wineries would not export without the aid of the MPP, for two reasons: a) the trade barriers that the MPP was originally intended to combat remain in place, and b) the costs associated with establishing and sustaining a foothold in new markets would prove prohibitive to many wineries without some cost support for promotion programs.

a. Trade Barriers

The MPP was originally established as a means to counter a myriad of unfair trade barriers. Despite past negotiating efforts of the U.S. Government under the Wine Equity Act and the Uruguay Round, U.S. wine exports continue to face severe market access impediments in major wine markets. Restrictions include but are not limited to:

- discriminatory monopoly production and taxes in Taiwan;
- discriminatory price charges in the Canadian provinces of Ontario, British Columbia and Quebec (despite the U.S.-Canada Free Trade Agreement);
- restrictive health and sanitation requirements in Mexico and Venezuela; and
- licensing procedures in Brazil, Chile and Argentina.

The U.S. wine industry receives no production subsidies from the U.S. Government. MPP is not considered a subsidy; rather, it is an export promotion program. No funds from this program may be used to lower the price or cost of the product. As an industry without subsidies, the U.S. wine producers/exporters are at a competitive disadvantage vis a vis their foreign competitors – especially the EC, which pumps billions of dollars in subsidies into the wine sector. The MPP allows U.S. wineries to compete in the world market on a more level playing field.

b. Costs of Overseas Marketing

The nature of the industry requires substantial investment in marketing activities (e.g., advertising, personal selling and education) for successful foreign market penetration. Wine export promotion efforts include expenses which are not covered by MPP funds (e.g., travel, overseas sales organizations, product sampling, etc.). Wineries are currently covering all of these additional marketing costs on their own. However, without the MPP, small wineries might not be able to shoulder all of these marketing costs in the short term, even if there might be profits in the long term.

Large companies, on the other hand, might not export for the simple reason that they do not need export markets for survival. Because large companies target mass markets, exporting demands significant financial investment with considerable risk. Prior to 1986, large companies chose to focus on developing domestic market share where profits were higher. MPP funds have encouraged large wineries to seek foreign market share and develop the U.S. industry's international competitiveness.

LARGE COMPANIES AND THE MPP

There are many arguments in favor of granting large companies MPP funds. First and foremost, large company MPP allocations do not take away from the MPP funds available for small companies. Small companies receive their requested allocation provided that their marketing plans and past history in the program qualify for funding. Of the 107 wineries participating in the 1993 program, there are several large companies, many mid-size companies and over 75 small companies. This assortment of businesses mirrors the structure of the industry.

Secondly, it is important to understand that any winery, large or small, must compete directly against the highly subsidized wine industries of Europe. No American winery can be considered "large" or a dominant force when it competes on foreign soil against the combined might of the EEC wine producers.

Wineries in California own only about 12% of the wine grapes crushed each year. The remaining 88% is purchased under contract from thousands of grape growers. Prohibiting a large company from participating would hurt growers from participating in the export market.

Large companies establish positions of strength in markets that allow smaller companies to sell under the "California" umbrella. Without the establishment of a mass market for California wines, retailers would not allot the shelf and wine list placement necessary to be a factor in the competitive environment.

The American food and beverage industry has created and established brand names that are a major competitive strength. The long-term benefits of brand-name recognition should be realized by allowing the large companies that own these brands to invest in their international development. While the U.S. has competitive products, it needs to develop a competitive edge in world markets. Because of their mass marketing ability, large companies play a key role in developing and maintaining U.S. competitiveness worldwide. To this end, government export promotion assistance to large companies is vital.

PROGRAM DESCRIPTION

The California wine industry created a program using government export promotional funds that has been, in large measure, the reason for its sales success. The program includes:

* a **generic marketing program** that is now active in 16 countries. This marketing program provides support for wineries to enter new markets by providing information, trade show participation assistance, and opportunities to meet foreign importers, retail buyers, and wine trade media. The generic program also provides information about our industry to the foreign trade in the form of brochures, videos, trade advertising, and seminars. In major markets, retail promotions and consumer events support the sales of wines through the retail trade.

* a **matching funds program** for wineries to support their branded promotion. Wineries receive matching funds for eligible promotional expenses in foreign markets up to their allocated budgets. It is important to note that winery export expenses for product testing and analysis, certification requirements, special labelling requirements, travel, product samples, and administration are not eligible expenses under the program. These types of expenses all must precede market promotion.

This export program requires industry commitment:

* The wineries in the program finance the management and administration of the program by the Wine Institute. The administrative budget in 1993 is $960,000. This is clearly a priority program to the wine industry.

* Wineries must first develop export programs before they can spend promotional dollars. The matching fund aspect of the program assures that funds won't be spent without sound business reasons. Remember, it's the participating vintner's money, as well as the government's.

* As an example of the industry's financial commitment to the program, in 1992 the Wine Institute MPP budget was $14.3 million. We developed a generic program of $4.6 million and a matching funds budget of $9.7 million. This program, therefore, resulted in branded promotion of $19.4 million, generic promotion of $4.6 million and an administrative and management budget of $950,000 for a total industry program of almost $25 million, based on an MPP allocation of $14.3 million.

PROGRAM RESULTS

* Since 1986, U.S. wine export sales have increased over 530% in value. Prior to the implementation of the MPP, U.S. wine exports were stagnant.

* In 1986, only 36 California wineries were involved in exporting. In 1993, there are 107 wineries exporting with the help of the program.

* In 1992, export sales totaled $174.4 million and over 37 million gallons of wine. This is the equivalent of 29,000 acres of wine grapes.

* Exports now account for approximately 7% of total domestic wine production. However, exports now account for more than 20% of the sales of many California wineries.

* Because of TEA/MPP, Wine Institute has invested substantially in administrative and management resources to support exports. Generic marketing activities have expanded to 16 foreign markets. Prior to 1985, there was no generic export promotion. (see attached article about Danish market)

* During the period 1986 through 1992, Wine Institute received approximately $56 million in TEA/MPP matching funds. During the same period, incremental export sales have amounted to $537 million, almost a 10 to 1 ratio.

The following chart summarizes the funding and sales results since 1985:

WINE INSTITUTE - EXPORT PROGRAM RESULTS $ MILLION			
FISCAL YEAR	TEA/MPP FUNDS	EXPORT SALES	% CHANGE
1985	-	27.6	-
1986	4.8	34.9	26
1987	2.6	60.8	74
1988	3.0	85.3	40
1989	7.0	98.1	15
1990	9.0	125.9	28
1991	15.0	146.1	16
1992	14.3	174.7	20
1993	11.7	-	-

CONCLUSION

The MPP has allowed the U.S. wine industry to compete on the world market in spite of enormous price subsidies by competitors and trade barriers in market countries. U.S. wine exports have surged since the inception of the MPP in 1986. U.S. wineries now export almost $10 in wine for every $1 in MPP funds.

Increased wine exports provide direct benefit to the U.S. agricultural sector. U.S. wine exports have grown to the equivalent of 29,000 acres of vineyard production of wine grapes. This acreage represents a value of approximately $306 million.

Additionally, because wine is a value-added product which requires manufacturing and significant marketing investment, increased wine export sales translate into greater U.S. jobs and supporting economic activity.

As a result of TEA/MPP, wineries have developed new overseas marketing efforts. These programs are still in a precarious stage of infancy. With tremendous trade barriers continuing to face U.S. wine exports, even greater U.S. government support is needed to sustain export efforts.

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U.S. Wines Sparkling In Danish Marketplace

By Hasse H. Kristensen

Denmark. The land of the Tivoli amusement park, Hans Christian Andersen...and American wines? Yes, that's becoming more the case these days as U.S. wines make dramatic gains in a market dominated by European wines.

Denmark does not produce any wines of its own and has only a relatively short wine-drinking tradition. Until the mid-1960s, beer and soft drinks were the beverages of choice, with per capita wine consumption lagging at less than 2 liters a year.

This pace gradually increased to 5 liters in 1972 and then jumped to 8.4 liters in 1973, the year Denmark joined the European Community (EC) and customs duties were slashed drastically.

Since then, per capita wine consumption has risen to 22 liters per year. The country's total consumption reached a record 114 million liters in 1991, compared to 8.2 million in 1962 and only 2.4 million in 1952. In addition, around 30 million liters of wine are bought—tax free—at airports or on ferry boats serving ports in Scandinavia and Germany.

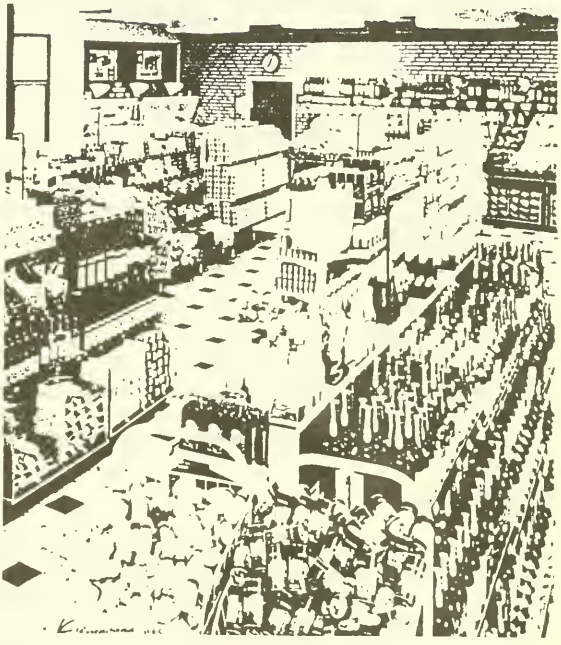
Besides the overall consumption gains of the past two decades, Denmark's import pattern has changed radically.

France is now by far the top supplier, claiming about two-thirds of the Danish market for the past decade. But a decade before that, Portugal owned the top spot with a 47-percent share in 1972 versus 27 percent for French wines.

For 1991, though, Portugal's share, which started to plummet with Denmark's accession into the EC, stood at only 5 percent—about double that of the United States.

Market Niche There for U.S. Wines

The U.S. share in the Danish wine market was only 0.76 percent (67,000 liters) as late as 1984. By 1991, the U.S. market share rose to 2.4 percent, an almost fourfold increase.



Danish imports of U.S. wines in 1991 were 2.6 million liters, a level slightly larger than Denmark's *total* wine imports in 1952.

The major U.S. competitors for establishing an expanding beachhead in the Danish wine market are Chile and Australia. Like the United States, Australia had a share of only about 0.1 percent in 1984. It grew to 1.6 percent in 1988, but has remained at around that level.

Wine from Chile is showing more growth potential. In 1988, the Chilean share was just 0.2 percent; in 1991, it was 2.5 percent, a notch ahead of U.S. wines.

On a list of foreign wine suppliers to Denmark, the United States now ranks seventh overall.

Danish wine consumption is still increasing and is expected to continue on that trendline in the future, especially for less-expensive wines shipped in bulk. About 60 percent of Danish imports of U.S. wines arrive in bulk form.

Although U.S. wines are earning a good reputation among the Danes, most consumers still favor French wines because they are more familiar with these wines.

Tips for U.S. Exporters

After making contact with Danish wine importers, U.S. exporters should visit the country and bring samples for tastings. Some Danish importers prefer exporters who can supply a wide range of wines. Others are looking for suppliers to serve either the lower or higher end of the price and quality market.

U.S. wine exporters should always keep in mind that the market for wines above an export price of $2 per bottle (or its equivalent, if in bulk) is extremely limited.

For U.S. wine exporters aiming at the niche that does exist, a lot of marketing efforts are required. Another prime requisite for building sales is *patience*.

Too often, a U.S. exporter becomes discouraged over low sales volume and gives up after a year or two. Therefore, it's essential that the exporter, together with the Danish importer, plan market strategy for wine promotion early in the game.

Counselor Founded Wine Society

Starting in 1986, serious efforts to boost U.S. wines in Denmark were launched.

The U.S. Office of Agricultural Affairs in Copenhagen and the Wine Institute, a market development cooperator working with USDA's Foreign Agricultural Service (FAS), arranged for annual wine tastings with the Danish trade and members of wine societies. The Washington State Department of Agriculture joined this effort in 1989. More than 65 U.S. wineries contributed about 200 wines at the last presentation.

In early 1987, FAS' agricultural counselor in Copenhagen, Alex Bernitz, founded the Danish-American Wine Society (DAWS). Each year, the society arranges about 10 tastings, with comments, for its nearly 500 members.

The American Embassy and the U.S. Ambassador also help wineries promote U.S. wines in Denmark. Events hosted either at the Embassy restaurant or the ambassador's residence are staged for wine journalists, importers, retailers, hotel and restaurant operators and representatives of the business community. They also draw good publicity in the Danish press.

Efforts to make U.S. wines more well known among the Danish wine trade and, ultimately, the consumers are expanding in many directions. In early summer 1992, two Danish wine writers visited California, Oregon and Washington. In December, they published a book, titled "American Wine—A Place in the Sun," in Danish.

A by-product of the book is an eight-page pamphlet on U.S. wines that will be distributed to all segments of the wine trade in Denmark.

The Danish Wine Market

Denmark is the only Scandinavian country whose wine trade is not controlled by an alcoholic beverage monopoly. So importers can buy directly from suppliers. And since Denmark does not produce wines, it's a market open to new wines, especially those that carry a commitment to long-term market strategy.

The Danish wine distribution system is similar to that in most European countries.

Many importers purchase directly from foreign wineries and resell to wholesalers and retailers. The larger retailers, such as chain grocery stores and mini-supermarkets, also may buy branded or bulk wines directly from overseas wineries. Sometimes, they import less expensive wines in bulk, then bottle and sell under their own labels.

The chain grocery stores, including co-ops, hold a commanding position in the import system, accounting for about two thirds of all wine imports. Mini-supermarkets own about a 10-percent import share.

Although hotels and restaurants are not connected directly with major foreign suppliers, they account for around one-tenth of all imports by buying a variety of wines from Danish importers.

Most of the more than 30 major wine importers in Denmark are now importing wines from about 50 U.S. wineries, all but three of which are in California. The other three are in the state of Washington.

For more information about U.S. wines in Denmark, contact:

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American Embassy - Copenhagen
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